Taxing Virtual Currencies: An Overview of Tax Treatments and Emerging Tax Policy Issues

"We welcome the report approved by the G20/OECD Inclusive Framework on BEPS on the tax policy implications of virtual currencies."

G20 Finance Ministers and Central Bank Governors' communiqué, 14 October 2020

Highlights

- **Crypto-assets, and virtual currencies in particular, are fast-moving** and tax policymakers are still at an early stage in considering their implications.
- **G20 Leaders and Finance Ministers have called on international organisations to analyse the risks posed by crypto-assets.** So far, the tax policy and evasion implications have been largely unexplored, although forming an important aspect of the overall regulatory framework.
- **Prepared with over 50 jurisdictions, *Taxing Virtual Currencies* is the first comprehensive analysis of the approaches and policy gaps across the main tax types** (income, consumption and property taxes) for such a large group of countries.
- ***Taxing Virtual Currencies* also considers the tax implications of a number of emerging issues,** including the growing interest in stablecoins and 'central bank digital currencies'; as well the evolution of the consensus mechanisms used to maintain blockchain networks and the dawn of decentralised finance.
- **This report was presented at the G20 Finance Ministers and Central Bank Governors' meeting on 14 October 2020.** It provides key insights and a number of considerations to help policymakers wishing to improve their tax policy frameworks for virtual currencies.

Background

The G20 Leaders, Finance Ministers and Central Bank Governors have called on international organisations to present analyses of the risks posed by crypto-assets.

The Financial Stability Board has looked at financial stability and macroeconomic implications, the Financial Action Task Force has looked at anti-money laundering ones. However, the tax policy and tax evasion implications have been largely unexplored while they form an important aspect of the overall regulatory framework.

Tax policy is relevant in the virtual currency space. The overall market capitalisation of virtual currencies reached USD 390 billion as at October 2020[1] , with more than 10 million transactions taking place in this market each day. Virtual currencies face high price volatility, which can result in significant gains (or losses). Their exchangeability with fiat currency and similarities to other forms of financial products or intangible assets means that a sound tax policy framework is necessary to ensure the consistent treatment of similar asset types and to prevent tax avoidance. Investment in virtual currencies also generates value and represents a potentially important tax base that should be defined and recognised by countries who will then need to decide whether and to what extent they want to tax this base. This report can support policymakers in their efforts to determine the appropriate tax treatment of virtual currencies. It provides the most comprehensive cross-country comparison of tax laws and guidance regarding virtual currencies and highlights emerging issues for policymakers and the research community.

Virtual currencies are also important from a monetary policy perspective, as they have implications especially in the case of 'stablecoins' that aim at linking their value to 'real-world assets' such as fiat currencies. This is giving rise to an increased focus on 'central bank digital currency' projects, although these discussions remain at a relatively early stage in most countries.

Tax policy can contribute to improving transparency and certainty in the virtual currency space. Clear tax rules means that it will be easier to encourage and monitor compliance and reporting, allowing countries to access

[1] https://coinmarketcap.com/all/views/all/

more information on transactions and helping them detect illegal activities. Adopting an efficient and adequate taxation framework also helps to improve certainty and minimise costs for investors, individuals and businesses by acknowledging their activities and establishing clear tax liabilities and treatments.

Key findings

This report covers the key concepts and definitions of **blockchain** and **crypto-assets,** looking at the **characterisation**, **legality** and **valuation** of virtual currencies while analysing the **tax consequences across the different stages of their lifecycle**, from creation to disposal. The report also identifies a number of key tax policy considerations and provides an overview across countries of the **tax treatment of virtual currencies – from the perspective of income, consumption and property taxation** – highlighting key taxable events and similarities and differences in country approaches to taxation. The report also analyses a number of **emerging issues** related to the taxation of virtual currencies, including the **rise of stablecoins and 'central bank digital currencies'**; as well as the **evolution of the consensus mechanisms** used to maintain blockchain networks (e.g. the increasing use of proof-of-stake rather than proof-of-work) and the **development of decentralised finance.**

Under income taxes, **most countries consider virtual currencies to be property**, and tax them in the same way as other forms of intangible property. Some stylised findings from across the countries covered include:

- **Income from 'mining' or exchanges** (i.e. for fiat or other virtual currencies, or against goods and services) are taxed as capital gains, or less commonly, as a form of capital or miscellaneous income.
- **A minority of countries make a distinction between business activity and personal or occasional activity.** The implication of this is normally that business activity is taxed as income, and personal/occasional activity is taxed as capital gains (in rare cases, personal use may be exempt, particularly if the country has no capital gains tax for personal gains).
- **Most countries consider all forms of exchanges of virtual currency to generate a taxable event;** a few countries exempt trades between different types of virtual currency; and a few more do not apply taxes at exchange of any type.

Under consumption taxes, there is more consistency in tax treatment, with countries treating almost all aspects of virtual currencies as exempt or out of scope. This is often for practical reasons, as they may wish to avoid having to consider the implications of a barter scenario, whereby a single transaction creates two sets of VAT liabilities and input credits. Additionally, in EU countries, the VAT treatment was determined by the decision of the European Court of Justice in 2015 that exchanges of Bitcoin are exempt under the EU VAT Directive.

Finally, **virtual currencies form part of a taxpayer's assets and are taxable under wealth and inheritance taxes,** where these exist. Inheritance taxes may pose logistical difficulties, as the asset may not be accessible to the inheritor, but tax is generally still payable.

Considerations for policymakers

The report *Taxing Virtual Currencies* highlights considerations for policymakers wishing to strengthen their legal and regulatory frameworks for taxing virtual currencies, thus improving certainty for tax administrations and taxpayers:

- **Providing clear guidance and legislative frameworks for the tax treatment of crypto-assets and virtual currencies and update these frequently**, including to ensure consistency with the treatment of other assets, notably intangible assets, and to address major taxable events;
- **Supporting improved compliance, including through the consideration of simplified rules** on valuation and on exemption thresholds for small and occasional trades;
- **Aligning the tax treatment of virtual currencies with other policy objectives or trends**, including the declining use of cash – which is being accelerated by the COVID-19 pandemic – and environmental policy objectives; for instance mining virtual currencies can prove energy-intensive.
- **Designing appropriate guidance on the tax treatment of emerging technological areas,** including stablecoins, central bank digital currencies, proof-of-stake consensus mechanisms and decentralised finance, for which existing tax treatments may not be appropriate.

For more information:

https://oe.cd/taxingvirtualcurrencies

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