

A Cross-national Comparison of Crypto-asset Income Taxation Regimes

Lois Tullo – York University
Preetika Joshi – McGill University
Linda Thorne – York University
Nicolas Epelbaum – York University

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Agenda



Background



Types of Crypto-asset Transactions



Classification of Crypto-assets for Accounting and Tax Purposes



Overview of Crypto-assets Income Tax Treatment



Selected Countries Taxation Policies



Conclusions



Background

History

Bitcoin (BTC)

[bit-,kòin]

A cryptocurrency, a virtual currency designed to act as money and a form of payment outside the control of any one person, group, or entity, and thus removing the need for third-party involvement in financial transactions.

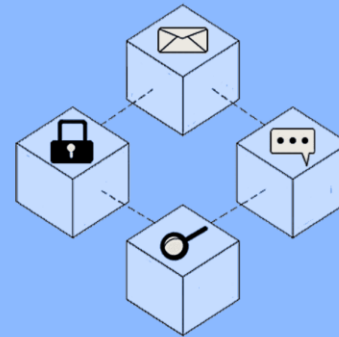


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Blockchain

[ˈblæk-,chān]

A digital database or ledger that is distributed among the nodes of a peer-to-peer network.

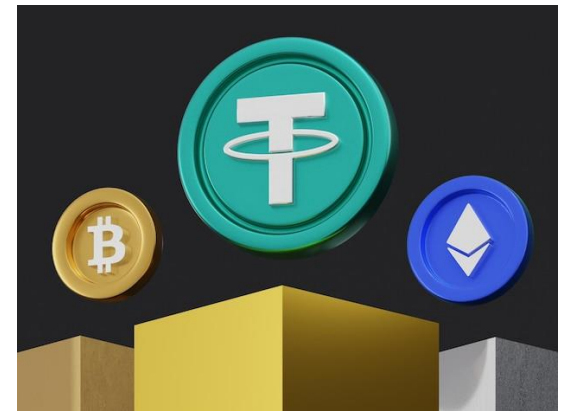


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Types of Crypto-assets

- Crypto-assets are digital representations of value that rely on a cryptographically secured distributed ledger, or a similar technology, to validate and secure transactions¹
- Common examples of crypto-assets include:
 - Cryptocurrencies
 - Utility tokens
 - Security tokens
 - Non-fungible tokens (NFTs)
- More than 12,500 crypto-assets²
 - Most widely known include Bitcoin (BTC), Ethereum (ETH) and Tether (USDT)



¹ Government of Canada, “Information for crypto-asset users and tax professionals,” Government of Canada, December 13, 2023 (<https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/compliance/digital-currency/cryptocurrency-guide.html>).

² “Number of crypto-assets Worldwide from 2013 to February 2022” Statista, February 2022 (<https://www.statista.com/statistics/863917/number-crypto-coins-tokens/>).

Market Value of Cryptocurrencies

- Market has grown significantly over the past decade, but its value is highly volatile:
 - The global market value peaked on November 2021 at \$3T USD and fell to \$1T USD by end of 2022 with the current value being \$1.9T USD¹



¹ "Global Live Cryptocurrency Charts & Market Data" CoinMarketCap, February 2024 (<https://coinmarketcap.com/charts/>).

Types of Crypto-asset Transactions

Purchase for Consideration

Two most common transactions:

- Buying, Holding and Selling
- Trading (Actively Buying and Selling)



Purchase without Consideration

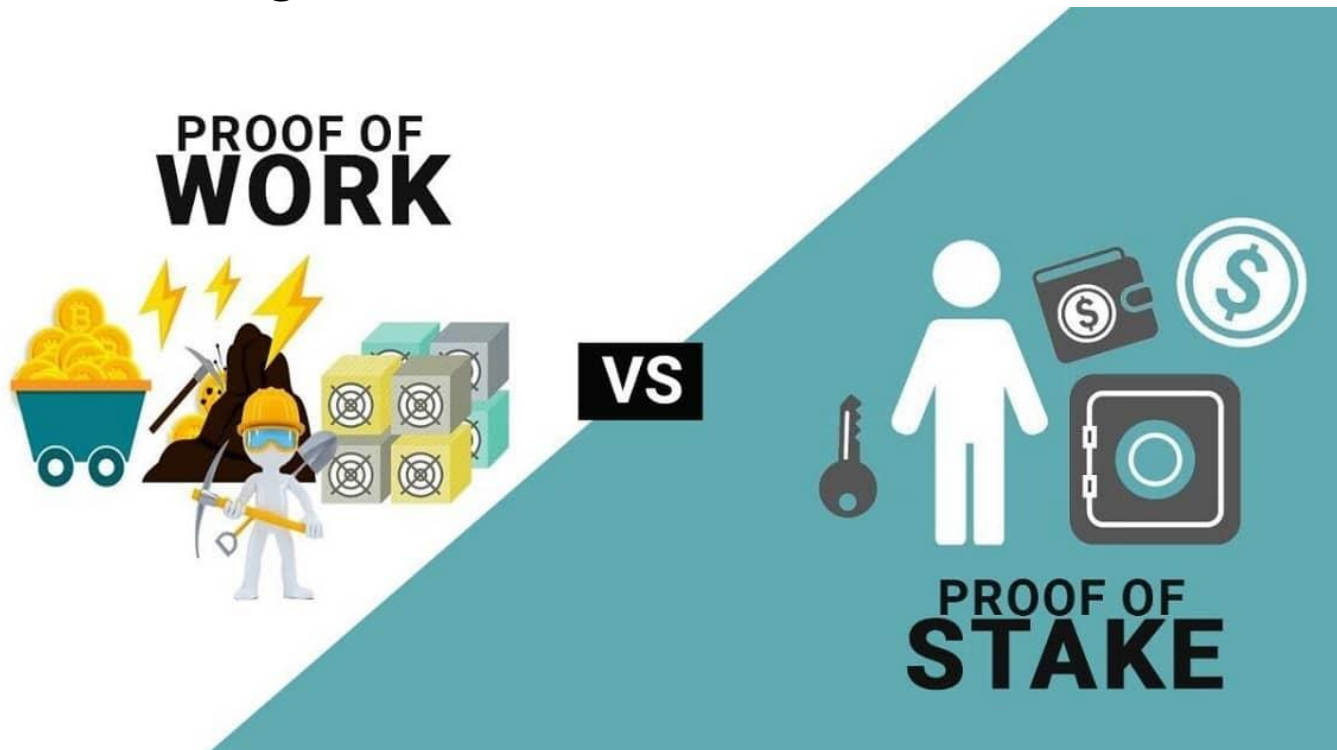
Most common transactions:

- **Airdrops**
- **Forks**
- Rewards for validation services through **Mining or Staking**



Consensus Mechanisms

Proof of Work (PoW) – Validators compete to update the blockchain by solving complex mathematical algorithms



Proof of Stake (PoS) – Validator is selected based on a pseudo-random process from a pool of validators who “staked” a certain number of crypto-assets

Classifications of Crypto-assets

Accounting Classification (IFRS)

- No specific guidance on how to classify and account for crypto-assets
- Crypto-assets must be classified under existing standards using a principle-based approach:
 - IAS 2 Inventories
 - IAS 7 Statement of Cash Flows
 - IAS 32 Financial Instruments: Presentation
 - IAS 38 Intangible Assets
 - IFRS 9 Financial Instruments
 - IFRS 15 Revenue from Contracts and Customers



Accounting Classification (IFRS)

- The International Financial Reporting Interpretations Committee (IFRIC) published an agenda in 2019¹ defining cryptocurrencies as:
 - A digital or virtual currency recorded on a distributed ledger that uses cryptography security;
 - Not issued by a jurisdictional authority or other party; and
 - Does not give rise to a contract between the holder and another party
- The IFRIC concluded cryptocurrencies fall under the definition of intangible assets under IAS 38
 - Under some circumstances cryptocurrencies would constitute inventories under IAS 2



¹ IFRS Interpretation Committee, “Holdings of crypto-assets,” IFRS Foundation (<https://www.ifrs.org/projects/completed-projects/2019/holdings-of-cryptocurrencies/#final-stage>).

Classification for Tax Purposes

- The classification of crypto-assets for tax purposes is dependent on the jurisdiction¹:
 - Foreign currencies (e.g., Italy)
 - Property (e.g., USA)
 - Other (e.g. Austria)
- Most jurisdictions have not amended their tax laws to address the treatment of crypto-assets¹:
 - As a result, general principles of the jurisdiction's tax law apply to crypto-assets



¹ Schmidt, N., Bernstein, J., Richter, S., & Zarlenga, L. M. (2021). Taxation of crypto-assets. Wolters Kluwer.

Overview of Income Tax Treatment

Type of Taxpayer/Nature of Operations

- The tax treatment of income or loss generally depends either on the type of taxpayer or on the nature of operations
- Type of taxpayer:
 - Individual or Corporation
- Nature of operations
 - Activities that give rise to capital gains or losses and those that give rise to ordinary income or loss



Taxable Events

- Relative to other players, the Organisation for Economic Co-operation and Development (OECD) is the most active player pertaining to the tax implications and classifications of crypto-assets
- Taxable Events:
 - First Taxable Event - “Creation & Receipt of Crypto-asset”
 - Second Taxable Event - “disposition”



Selected Countries Taxation Policies

Canada

- Taxation of crypto-assets based on existing tax policy
 - No provisions in the Income Tax Act associated with the taxation of crypto-assets
 - See “Information for crypto-asset users and tax professionals”¹
- Canada taxes crypto-assets based on nature of underlying activity
 - Capital gains or losses vs Ordinary gains or losses
 - Interpretation Bulletin IT-479R, Transactions In Securities²
- Factors that may indicate a business activity:
 - Frequency of transactions
 - Period of ownership
 - Knowledge of crypto-asset
 - Time spent
 - Financing
 - Advertising



¹ Government of Canada, “Guide for crypto-assets users and tax professionals,” Government of Canada, December 13, 2023 (<https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/compliance/digital-currency/cryptocurrency-guide.html>).

² Government of Canada, “ARCHIVED - Transactions in securities” Government of Canada, February 29, 1984 (<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/it479r/archived-transactions-securities.html>).

Selected Countries Taxation Policies



United States
of America
(USA)

United
Kingdom
(UK)

Belarus

United States of America (USA)

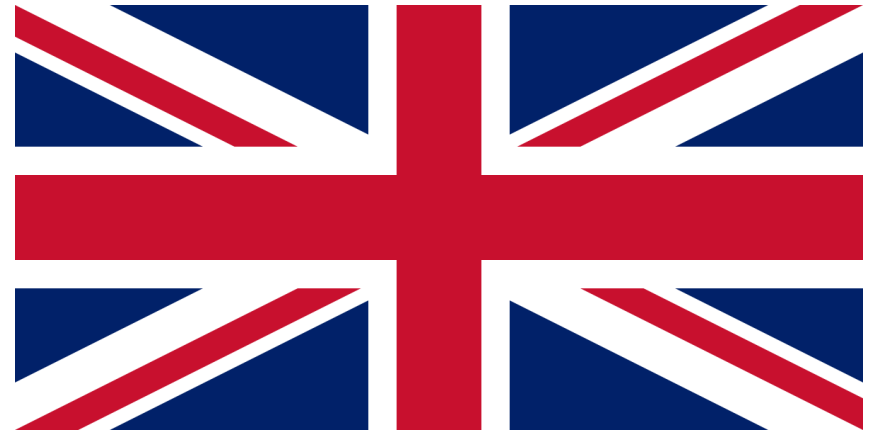
- Property for tax purposes:
 - General tax principles applicable to property transactions apply
 - See “Frequently Asked Questions on Virtual Currency Transactions”¹
- Taxed based on the nature of the underlying activity
 - Capital gains or losses vs Ordinary gains or losses



¹ Internal Revenue Service (IRS), “Frequently Asked Questions on Virtual Currency Transactions,” IRS, February 9, 2023. (<https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions>).

United Kingdom (UK)

- Does not consider crypto-assets to be a currency nor fiat money:
 - See “HMRC crypto-assets Manual”¹
- Tax treatment depends on the nature and use of the asset:
 - The following factors may indicate a financial trade:
 - Frequency of transactions
 - Level of organization
 - Intentions
 - Sophistication of the activity



¹ Her Majesty's Revenue and Customs (HMRC), “crypto-assets Manual,” November 3, 2022 (<https://www.gov.uk/hmrc-internal-manuals/crypto-assets-manual>).

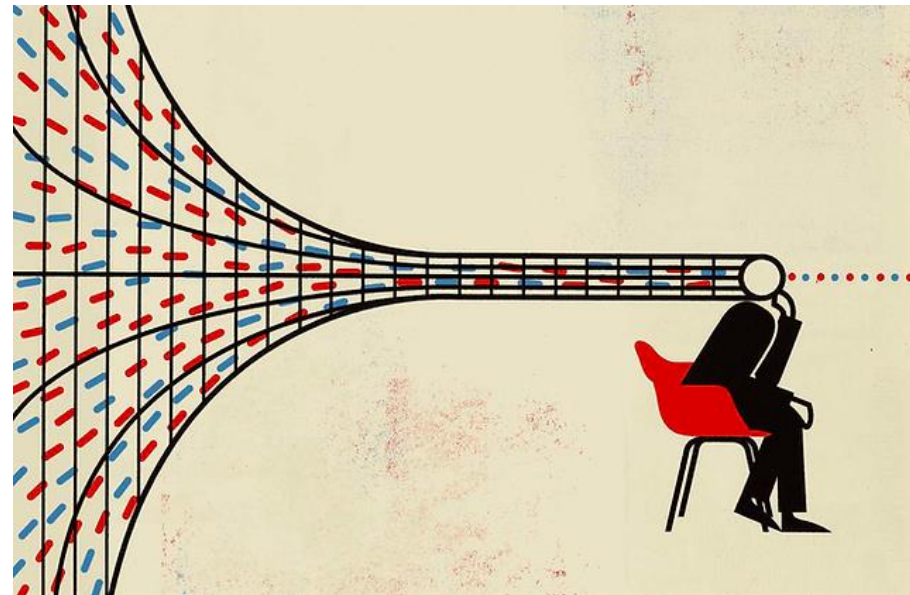
Belarus

- Decree No. 8 - *On the Development of Digital Economy*
 - Entered into force in March 2018
 - Includes provisions pertaining to carrying out business activities in the digital technology sector



Conclusion

- Variation in the taxation of crypto-assets around the globe:
 - Spectrum from crypto-asset tax havens to tax unfriendly countries
- Nature of blockchain transmitted transactions generates challenges to tax administrators:
 - Crypto-Asset Reporting Framework (CARF) developed by OECD



Thank you for your participation