



CLASSIFYING CRYPTOS FOR TAX



Swipe



For any transaction to be taxed, there must be a **charging mechanism** in the law which determines whether such transaction can be taxed and if yes, under which category.





Cryptocurrency (typically in the nature of payment tokens) has been classified differently in different countries for VAT and Income Tax.

For VAT, majority countries classify it as akin to a fiat currency. **For Income Tax**, cryptos are generally classified as a form of property, either intangible assets or financial instruments.

One must be thinking what is the rationale behind classifying cryptos differently for VAT and Income Tax?



CRYPTO CLASSIFICATION FOR VAT



Globally, VAT is charged on supply of goods and services. Whether crypto is classified as goods or services is not specifically given in any of the existing VAT laws.

The more developed countries (like Australia, Singapore, and the EU) initially classified cryptos as a form of **'intangible property.'**

With the increased use of crypto, global development, and post some European judicial precedents, the majority of such countries changed the classification - as similar to **fiat currencies.**



**WHAT WAS THE LOGIC
OF CHANGING THE
CLASSIFICATION?**





1. It resulted in a **barter transaction** since goods or services were purchased against the exchange of intangible property.
2. To avoid **double taxation**, as customers were paying VAT twice (one on the purchase of cryptos and another on procuring goods or services).
3. Identifying exchange rates, the value of supply, etc. posed **practical challenges**.
4. The European Court of Justice ruled that cryptos are comparable to fiat currencies as its purpose is to provide a means of exchange.

Due to these developments, most countries are now regarding cryptos as akin to fiat currencies and such transaction in money is generally outside the scope of VAT.





CRYPTO AS AN ASSET FOR INCOME TAX

Contrary to VAT, most countries classify cryptos as a form of intangible property for computing income tax.

The possible reason for treating crypto as an intangible asset class for income tax is perhaps **reduced administrative burden** of identifying value for sale and purchase which can be easily extracted from wallets or exchange platform.





Under income tax, transactions in cryptos could potentially be subject to either of the two taxes - **a business profits tax** or a **capital gains tax**.

Identifying which tax applies depends on the type of transaction and whether income is earned in the course of business or as a mere hobby.

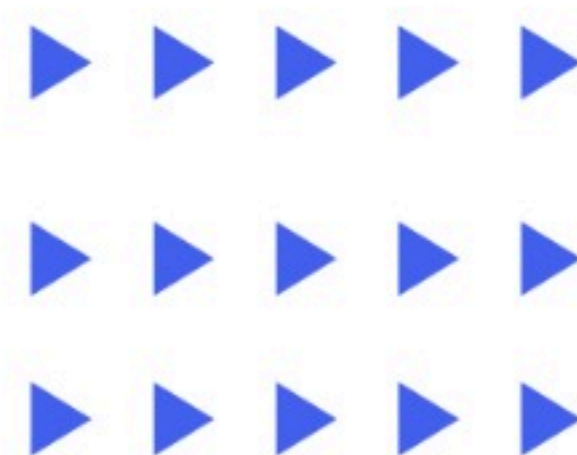




A business profits tax is collected on the profits earned from a **defined activity**, after deducting costs linked with earning such profits.

Whilst a capital gains tax is a tax on gains arising from sale and purchase of property that is generally subject to reduced tax rates and determined by a **predefined holding period**.

The tax cost may differ depending on whether cryptos were held as **stock in trade** or as an **investment asset**.





CONCLUSION

As cryptos are becoming more prominent and the number of transactions is increasing, relevant stakeholders need to be aware of the **correct classification** for them to discharge their tax obligations correctly.





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