

TAX ON CRYPTO MINING



Swipe



The word 'mining' immediately brings in front of us the image of 'gold'. And as we all know, the only way to produce gold is to mine it i.e., breaking the earth's crust and taking it out.

Similarly, to produce money, it needs to be printed by the Central Bank. Such process of producing money is called 'minting'.

But what about production of **digital money**, or '**crypto**' as we all commonly know it. Since cryptos are digital, they can neither be mined out of the earth, nor minted by printing more of them.



WHAT IS CRYPTO MINING?



To put it simply, when two people are transacting in crypto, there must be a mechanism to ensure the transaction is verified as a genuine transaction.

Crypto transactions do not involve any intermediary like a bank. So many people around the world (also known as crypto miners) **solve complex equations using computers to verify these transactions.**



Transaction is initiated



Transaction transmitted to crypto miners



Transaction verified and crypto miner gets reward



Once the transaction is successfully verified, crypto miners get rewarded in cryptos which are generated through the blockchain system.

The crypto miners also receive a 'gas (transaction) fee' from the crypto users to avoid delays in processing and to verify a specific transaction over others. The gas fee is generally paid voluntarily as an incentive.



Transaction added to the blockchain



Transaction complete



IS CRYPTO MINING TAXED?



THE ANSWER IS YES.

As a crypto enthusiast, a hobbyist, a trader, a miner, an exchange platform, or a digital wallet service provider, **at every stage you will be required to ascertain your tax obligations.**

We have discussed in our previous post on Classifying Cryptos for Tax that worldwide, classification of cryptos for VAT is completely different from how they are classified for income tax.

While for VAT, cryptos are akin to a fiat currency, for income tax they are generally classified as a form of property, either intangible assets or financial instruments.





VAT

Since crypto miners work voluntarily, there is no client-service provider relationship between them and the people whose transactions they validate.

The crypto miner would not typically know the identity of the person whose transaction he may be validating.

In the absence of any nexus or relationship, mining is **not considered a 'supply'** by most of the countries and has been kept **out of VAT**.

This treatment may not change even when the crypto miner receives a gas fee, as there could be no direct link between the receipt of gas fee and the verification service.

However, there are few countries where VAT treatment differs.



The **service of validating a transaction** in exchange for cryptos could be considered a **taxable activity** as the miner received crypto as a consideration for validating transactions.

Mining cryptos are also viewed as a **VAT exempt** transaction in some countries as cryptos could be considered as an **electronic financial service**.

The tax authority in the UAE has not yet published any guidance on VAT transactions involving crypto. Thus, it may adopt any of the VAT treatment above.



INCOME TAX



Income tax is generally collected in two forms – either as business profits tax or as a capital gains tax. Countries generally define clearly which profits get classified as business profits and which are to be considered as capital gains.

Many countries treat **mining of cryptos** as earnings, subject to **business profits tax**. The income on mining is generally the market value at the time of 'extraction'.

Few countries tax cryptos only on their **disposal**. Here, the income is generally considered as capital gains and taxed as a **capital gains tax**.



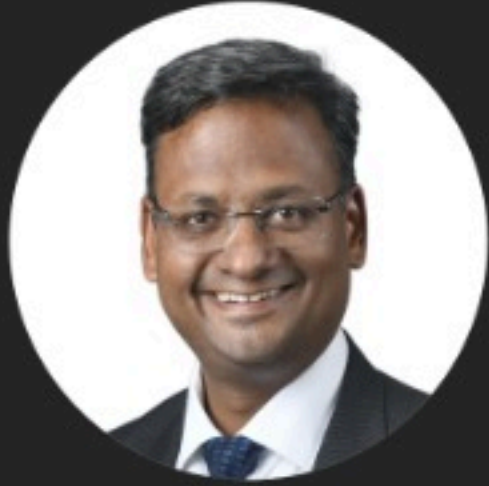


Also, your classification of income, i.e., business profits or capital gains could well be determined whether the income is earned out of a business or as a mere investment.

The first one will result in **business profits** (generally taxable on mining) and the later, in **capital gains** (generally taxable on first disposal).



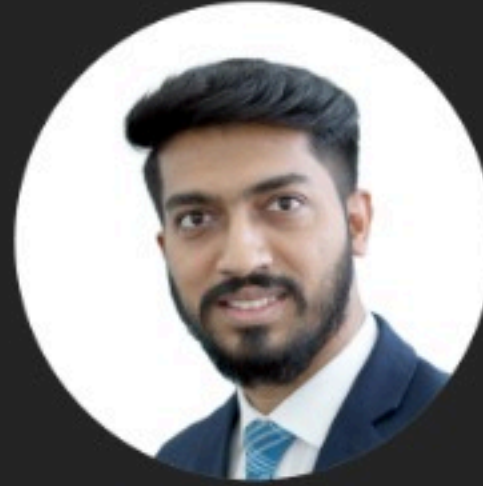
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