

HOW ARE CRYPTO ICOs TAXED?

Swipe



WHAT IS AN ICO?



ICO, an acronym for **Initial Coin Offerings** is akin to issuance of shares through an IPO.

Just like how a company floats IPO to the public to **raise funds** for its expansion, a crypto company raises funds by floating an ICO through issuance of digital tokens/cryptos.

The nature of digital tokens issued through an ICO varies depending on how the issuer wishes to use the funds.



TYPES OF TOKENS ISSUED IN AN ICO



1. Payment/ Currency token

Payment or currency tokens (or coins as they are more commonly called) are like any other cryptos such as Bitcoin or Ethereum. Its sole purpose is to use them as a **means of payment**.

2. Asset/ Financial token

Asset tokens are primarily held for **investment purposes** and generally take the character of a security (equity, debentures etc.).

These tokens allow the holders a right to receive dividend on shares or earn interest on bonds/debentures.

3. Utility/ Consumer token

Utility tokens are issued with the sole aim of allowing them to be **exchanged for specific goods or services** in the future.



VAT TREATMENT



It is important to understand how each of the tokens are classified based on its use to identify its taxability.

1. Payment/ Currency token

The nature of these tokens is akin to a fiat currency. Their issuance to collect funds (either in fiat currency or cryptos) may be considered as a **transaction in money** which is generally outside the scope of VAT.

2. Asset/ Financial token

Receiving funds through issuance of asset tokens may be considered as **dealing in securities, bonds** etc. It may be considered as an electronic financial service which could be VAT exempt.





3. Utility/ Consumer token

Analyzing the VAT treatment of utility tokens is interesting.

The issuance of utility tokens allow token holders a right to receive goods/ services in future against a successful outcome of a project.

As utility tokens allow a right to receive, these tokens may take the character of coupons.

Generally, VAT is triggered only when the coupons are redeemed. So, there may not be any VAT impact at the time of its issuance.





IF PROJECT IS SUCCESSFUL

VAT may apply at the time of redemption of tokens (coupons) in exchange for goods/ services.

IF PROJECT IS NOT SUCCESSFUL

Token holders may not be able to redeem tokens (coupons) due to unavailability of any goods/ services. As there is no redemption, it cannot be linked to any supply and may be treated as outside the scope of VAT.



INCOME TAX TREATMENT



Cryptos and digital tokens are classified globally as intangible assets for income tax.

1. Payment/ Currency token

On the basis that tokens are considered as **intangible assets**, their issuance through ICO may be considered as taxable income in the hands of the issuer.



A top-down view of a workspace. In the top left is a white cup of coffee with a saucer. To its right is a small white pot with a green succulent. In the bottom left is a silver calculator with various function buttons like 'TAX+', 'MRC', and 'GT'. In the top right corner, a portion of a spiral-bound notebook is visible.

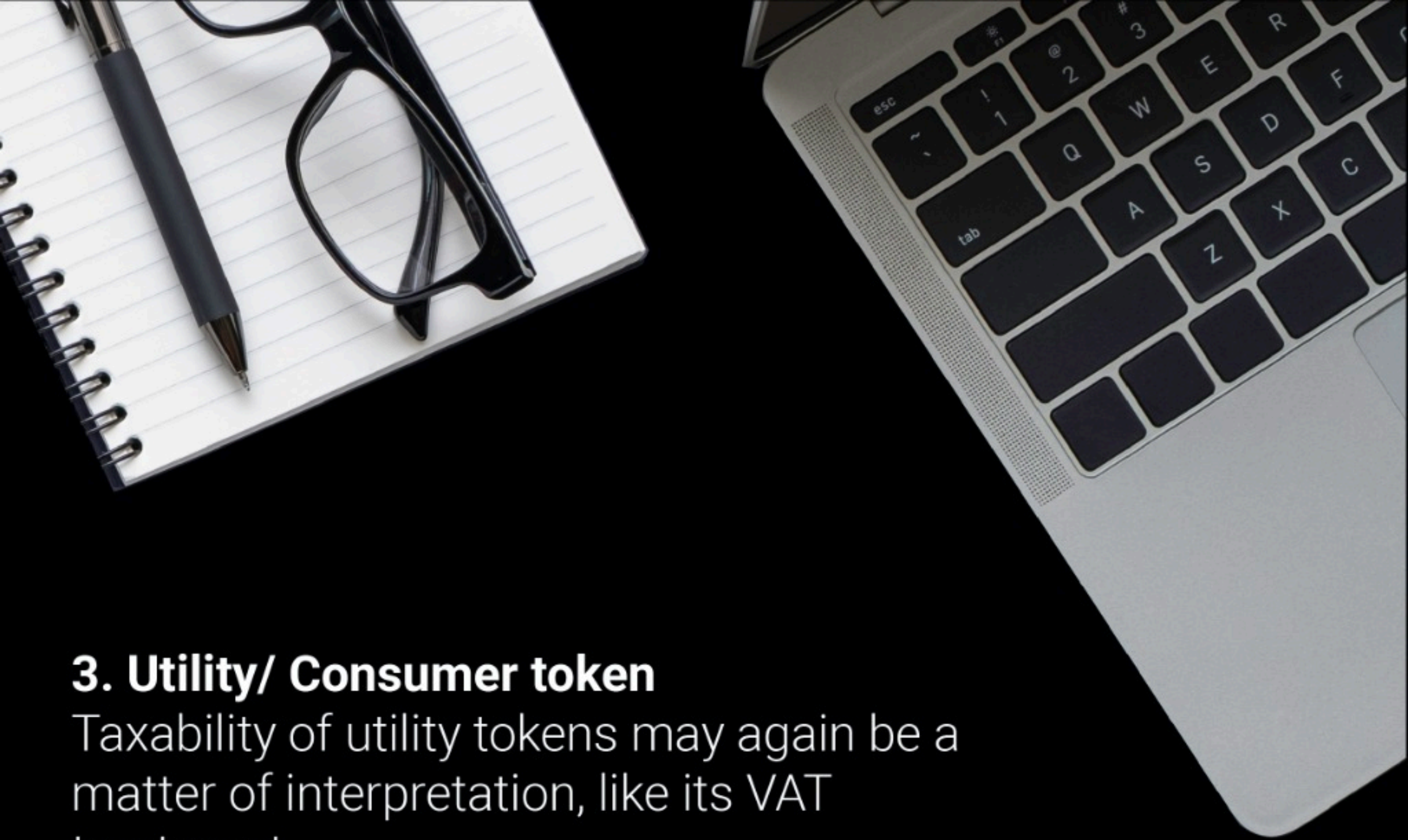
2. Asset/ Financial token

Asset tokens typically give right to receive dividends or interest. These tokens are recorded in the books as share capital (i.e., equity) or as debt (i.e., liability) and disclosed as a **balance sheet item**, similar to IPOs.

Such tokens are not captured in the P&L statement as they do not generate any income for the issuer.

In the absence of any income, no tax could arise on the ICO of asset tokens.





3. Utility/ Consumer token

Taxability of utility tokens may again be a matter of interpretation, like its VAT treatment.

One view is that as these are intangible assets, their issuance may be considered as disposal and could be taxable.

On the contrary, as there is no income generated at the time of issuance, there may not be any tax impact. Instead, income tax may apply at the time of **tokens' usage or redemption.**



AUTHORS



Nimish Goel

Partner

nimish.goel@dhruvaadvisors.com



Gaurav Shivhare

Senior Manager

gaurav.shivhare@dhruvaadvisors.com

CONTACT US



WTS Dhruva Consultants

207, Emaar Square, Building 4,
PO Box 127165, Dubai, UAE



Website:

<https://www.wts-dhruva.com/>

OUR TEAM

Deepak Agarwal

Ujjwal Pawra

Geet Shah

Naishadh Soneta

Kapil Bhatnagar

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