Cryptocurrency Tax

Since the beginning of this year, cryptocurrencies have grown by an average of 900%, and there are now more than 1500 known virtual currencies. Around the world, regulating bodies have started to take note, and the taxation policy of each nation and country has become a crucial issue for individuals and businesses involved in the cryptocurrency market.

Although many governments have been hesitant and slow to establish concrete guidelines on how to approach cryptocurrency incomes and profits, it is now clear that investors should start tracking their activities for tax purposes. If you aren't familiar with your resident country's policies towards cryptocurrency taxation, you could be faced with penalties, enormous fines, or charged with tax evasion.

Here's an overview of what taxes you should be paying attention to if you're involved in the market in the USA, Australia, Hong Kong, or Europe.

USA - IRS (Internal Revenue Service)

If you overlook or under report your crypto tax obligations in the USA, you risk facing a $250,000 fine, a summons, or jail time. On March 23, 2018, the IRS issued a reminder that "Taxpayers who do not properly report the income tax consequences of virtual currency transactions can be audited for those transactions and, when appropriate, can be liable for penalties and interest."

Whether you are a trader, investor, or miner dictates your tax liability. For tax purposes, cryptocurrency is treated as property, not as currency, cash, or dollars, and is therefore subject to capital gains taxes. Virtual currencies therefore fall under the same tax policies associated with stocks, bonds, or any other investment purchase. If your investment has gained value by the time you sell it, then it will be subject to capital gains taxes.

As a cryptocurrency miner or trader, you will be subject the regular rates of income tax.

It is advised to track all of your virtual currency transactions, including when it took place, how much was involved, what the return was, and the source of the asset. Whether it was a cup of coffee, a new car, or even for another cryptocurrency, your crypto transactions will all need to be declared for tax purposes, and you will need consider the cost basis (ie. original value) of your virtual currency holdings.

Third party softwares such as CoinTracking, bitcoin.tax, and Google Sheets Cryptofinance offer tracking resources which eliminate complexity and store your crypto activity in one place. Tracking softwares record of all your transactions and losses, and translate these into the resulting tax obligations according to your area.

The same tax regulations apply to US citizens trading in cryptocurrency outside the borders of the country. Tax exemption is applicable in charitable-giving situations, and when a cryptocurrency donation is made to tax-exempt organizations.

Hong Kong - Customs and Excise Department

Hong Kong's reputation as a non-interventionist and free market economy is reflected in its approach to cryptocurrency. Only activities, investments and profits which take place within the city are taxable by law, at a rate of 16.5%. Investors and traders are not subject to sales tax, VAT, capital gains tax, or withholding tax. This makes Hong Kong an attractive tax haven for those looking to get involved in the crypto market, as companies and business ventures received all of their profits from investing in financial assets.

Bitcoin and other virtual currencies didn't come under regulation until 2013, when Financial Secretary John Tsang addressed it for the first time, and when the Legislative Council in parliament calling for the government to state its position on the industry. Similar to the USA, Hong Kong also defines cryptocurrency as property and virtual commodity, and does not even regard it as electronic money. The trading, mining and investing of cryptocurrency is not yet regulated by any financial regulatory body, but rather the Customs and Excise Department.

Given that HK is a free port and places little restrictions on imports and exports, the government does not charge tariffs, and the responsibility is on to the individual to keep up to date with their source of wealth and funds. However, cryptocurrency is subject to income tax for profits derived in Hong Kong, so if you are a professional trader, then you will owe income tax on your profits. This also means you can apply to deduct costs incurred from buying or selling your crypto. Unlike the US, this income tax does not apply outside the borders.

Australia - ATO (Australian tax office)

Australia also requires you to declare your cryptocurrency profits, and the ATO is paying close attention to trading and transaction activities in the market. Their website offers a comprehensive guide to understanding the tax regulations which apply.

If you hold any digital currency as an investment, you will be taxed on capital gains once you have sold or exchanged it. As a trader, you will be subject to income tax, and will need to include those profits when declaring your income. If you hold the investment for a long period of time, in most cases for over a year, it is considered an investment. Miners are also subject to income tax, as mining is considered a business, and deductibles can be claimed in these cases. Indirect tax related to the supply of goods and services is also placed on crypto transactions, and you will have to pay tax when converting your crypto into AUD.

Some discounts and exemptions apply. If you hold your crypto for over a year before selling or trading, you can benefit from a 50% capital gains tax discount. A personal use exemption also exists, , which applies to the purchase of goods and services for personal use, such as booking accommodation online or instore at select retailers.

Unlike Hong Kong, and similar to USA, the ATO will target cryptocurrency investors' trading beyond borders, and uses data-matching techniques to chase citizens hiding crypto trading gains offshore. US, Britain, Canada and the Netherlands are also on board, and along with Australia they have formed a Joint Chiefs of Global Tax Enforcement to specifically target and eliminate transnational crimes fuelled by crypto.

Europe

There is currently an absence of standard European guidelines with regards to crypto tax regulations. Andrea Enria, the Chairman of the European Banking Authority, has hinted that regulators should take a measured approach against excessive regulation, and isn't convinced that cryptocurrency should be subject to the same policies as the traditional financial system.

Therefore, at this time, your tax obligations are dependent on the European country in which you currently reside.

Switzerland

- Doesn't tax capital gains.
- No definite policy on taxing cryptocurrency as of yet, but currently you won't be obliged to pay tax on your profits.

Britain

- Her Majesty's Revenue and Customs regards crypto as "token money," which is not considered to represent an economic activity.
- VAT does not apply, in accordance with Article 135(1)(d) of the EU VAT Directive, unless the sale of goods and services is involved.

- No tax is due when crypto is exchanged for other currencies, whether foreign or GBP.
- As for capital income tax, the same rules apply as on foreign exchange and loan relations.

Germany

- Germany recently announced that crypto will not be subject to VAT fees.
- Similar to the UK, tax applies to the exchange of goods and services which have been paid for in cryptocurrency.
- Profits from mining cryptocurrency is not subject to income tax. Trading activities, however, do need to pay capital gains tax, apart from profits resulting from holdings which have lasted over one year.

Estonia

- Both capital gains tax and VAT apply.
- Cryptocurrencies are regarded as both a means of purchase and payment, and as investment assets.

Slovenia

- Slovenia is known as one of Europe's most crypto-friendly countries, as it does not tax the capital gains of individual investors. These profits are not regarded as constituting part of their income.
- Businesses, on the other, will need to report and tax their crypto earnings.

Denmark

- In Denmark, the Financial Services Authority has announced that crypto businesses will be taxed in the same way as any other Danish company or entrepreneurial venture, although this will not be enforced on individual traders.
- Denmark seeks to become the first cashless economy in the world, and hopes that their regulations will support this goal.

Belgium

- Although they have not yet issued official regulations on the matter, citizens who trade in foreign crypto exchanges can expect to pay a tax of 33% on their profits.

Netherlands

- Dutch tax laws are in general quite liberal, and this also applies to their approach to cryptocurrency taxation, which is calculated based on an individual's regular income tax rate.

France

- France recently significantly reduced the tax rate for crypto traders, as announced by the French Council of State. Profits and earnings gained from transactions will be considered as non-commercial profits.

No matter your country of residence, it is never a good idea to attempt to skip out on paying taxes. The introduction of tax liability on cryptocurrency may not necessarily be a bad thing, as it shows that the market is receiving recognition as a legitimate asset, which will receive more support and consideration in the realm of tax laws in the future. The fact remains, that investors must regard themselves as taxpayers. Learn the legislation in your jurisdiction, pay attention to broader tax laws, and seek the help of an advisor if necessary.