R J Sanderson
& ASSOCIATES PTY LTD
PUBLIC ACCOUNTANTS

# Cryptocurrency Tax Consequences

## Crypto Tax: CGT

Cryptocurrency is generally taxed as a CGT asset. However, if you trade heavily in cryptocurrency the sale might be on revenue rather than capital account. To further complicate matters, if crypto is used to obtain goods or services and you make a gain of less than $10,000, the gain may be exempt from tax.

Cryptocurrency trading is on the ATO radar: in 2020, the ATO sent out approximately 350,000 notices to cryptocurrency investors.

It is therefore really important that you understand your tax obligations and keep good accounting records.

The various taxing points are discussed below.

## CGT (Capital Gains Tax)

If the disposal is a CGT event then it will be on capital account. This means that, provided the cryptocurrency has been held for longer than 12 months you will be entitled to a 50% CGT discount on the capital gain (ie the purchase price minus the sale price).

If you have made a capital loss this may be offset against other capital gains. Losses may also be claimed.

## When does a CGT disposal happen?

The situations in which a CGT disposal occurs include:

- Sell or gift cryptocurrency;
- Convert cryptocurrency to fiat currency (e.g. USD and/or AUD)
- Crypto-to-crypto trading
- Use cryptocurrency to obtain goods or services.

## Crypto-to-crypto trading

Crypto-to-crypto trades trigger a CGT event. A crypto-to-crypto trade occurs where you swap one coin for another without ever using any fiat currency.

For example, you might exchange some of your Bitcoin holdings for other cryptocurrencies, without selling any of the holdings and converting your funds back to Australian dollars.

CGT still applies to the trade, even though any of the gains you have made have not been realised in fiat currency.

The cost base is determined at the time that you acquire the crypto and the gain or loss is the difference in value when you swap.

Therefore, it is essential to record the value of the cryptocurrency at the time that you trade it for another cryptocurrency.

If you are unable to calculate the value of cryptocurrency you receive in the trade, you can use the market value of the cryptocurrency you disposed of.

## Personal Use Asset exemption

Cryptocurrency transactions are exempt from CGT if:

- The crypto is used to purchase goods or services for personal use, such as booking hotels online or shopping at retailers that accept digital currency, and
- The capital gains you make are from personal use assets acquired for less than $10,000.

An important rider is that you have not acquired, kept or used the cryptocurrency has as:

- An investment.
- As part of a profit-making scheme.
- In the course of business activities.

You should also note that your purpose for holding cryptocurrency may change during the period of ownership. For example, you may have originally acquired bitcoin for personal use and enjoyment, but after a sharp rise in the price of bitcoin later decided to hold onto your coins as an investment.

**According to the ATO, the longer you hold a cryptocurrency, the less likely it is to be a personal use asset.**

## Chain splits

A chain split occurs where there are two or more competing versions of a blockchain. If you hold cryptocurrency as an investment, and receive a new cryptocurrency as a result of a chain split (such as Bitcoin Cash being received by Bitcoin holders), you do not derive ordinary income or make a capital gain at that time as a result of receiving the new cryptocurrency.

If you hold the new cryptocurrency as an investment, you will make a capital gain when you dispose of it.

When working out your capital gain, the cost base of a new cryptocurrency received as a result of a chain split is zero. If you hold the new cryptocurrency as an investment for 12 months or more, you may be entitled to the CGT discount.

## Ordinary Income

Ordinary income and trading stock rules apply if you are carrying on a business that involves transacting with cryptocurrency.

Proceeds from the sale of cryptocurrency held as trading stock in a business are ordinary income, and the cost of acquiring cryptocurrency held as trading stock is deductible.

If you are carrying on a business you will usually:

- carry on your activity for commercial reasons and in a commercially viable way
- undertake activities in a business-like manner – this would typically include preparing a business plan and acquiring capital assets or inventory in line with the business plan
- prepare accounting records and market a business name or product
- intend to make a profit or genuinely believe you will make a profit, even if you are unlikely to do so in the short term.

Examples of businesses that involve cryptocurrency include:

- cryptocurrency trading businesses
- cryptocurrency mining businesses
- cryptocurrency exchange businesses (including ATMs).

There is also usually repetition and regularity to your business activities, although one-off transactions can amount to a business in some cases.

Whether you are carrying on a business and when the business commences are important pieces of information. If you are still setting up or preparing to go into business, you might not yet have started the business.

Money received (or property received) prior to a business being carried on is not generally assessable income. Likewise, you cannot claim deductions incurred prior to the business being carried on.

## Crypto Tax Reporting requirements

You need to keep records of all your crypto trades so you can calculate any capital gains or losses and include them on your tax return.

It is imperative that you keep records of all the cryptocurrency trades that are made so you can calculate any gains or losses that are made within a financial year and include these in your tax return.

Crypto trading platforms/software, such as CoinTracking, Koinly and Swyftx, can assist with keeping historical records of your trades and generating capital gain reports.

This type of software can help you track your trades and generate capital gains reports. It offers integration with many leading exchanges to make things even easier.

Tax treatment of cryptocurrencies can be complex as the rules outlined by the ATO are still fairly new.