THE INCOME TAX PROFESSIONALS

Bitcoin and Taxes What You Need To Know

Are you confused about cryptocurrency, what Bitcoin is and your tax implications? Here are a few key facts that may arise if you use this form of investing.

Cryptocurrency is a digital asset in which encryption techniques are used to regulate the generation of additional units and verify transactions on a blockchain and generally operates independently of a central bank, central authority or government. These digital assets are used to buy and sell goods or services and are generally known as Bitcoin. There are other forms of cryptocurrency, but Bitcoin was the first to be used.

Pro Tax Tip: Scammers often impersonate the ATO demanding Bitcoin or other cryptocurrency as a form of payment for fake tax debts. As cryptocurrency operates digitally, once scammers get your payment, it is virtually impossible to get back.

Although traders can buy and sell, Bitcoin is not considered a currency, but because it is used to trade as a commodity it is considered property and treated as an asset for Capital Gains Tax (CGT) purposes.

Transacting with cryptocurrency

When trading with Bitcoin, transactions are known as 'events' which may or may not result in a CGT gain or loss. A CGT event happens when you dispose of your cryptocurrency when:

- You sell or gift your cryptocurrency
- You trade or exchange your cryptocurrency
- You convert cryptocurrency to fiat currency
- You use cryptocurrency to obtain goods or services

Gains upon disposal incur CGT. If the disposal is part of transacting your business, the profits upon disposal will be assessable as ordinary income and not as a capital gain. The market value you receive needs to be accounted for in Australian dollars at the time of disposal.

If the cryptocurrency you received can't be valued, the capital proceeds from the disposal are worked out using the market value of the cryptocurrency you disposed of at the time of the transaction.

Bitcoin as a personal use asset

Personal use of cryptocurrency is not subject to income tax or CGT in Australia. If cryptocurrency is used to mainly purchase items for personal use or consumption, it is regarded as a personal use asset. Some capital gains that rise from the disposal of a personal asset may be disregarded if the capital gains you made from personal use assets are less than $10,000. All capital losses you make on personal use assets are disregarded.

Self Managed Super Funds (SMSF) are not prohibited from investing in Bitcoin, however trustees are reminded that the investment must be allowed under the fund's trust deed, and be in accordance with the funds investment strategy and be fully compliant with investment restrictions.

Bitcoin as an investment

If you use Bitcoin as a profit making investment, you will not be entitled to the personal asset exemption. You'll need to pay tax on any capital gain you make upon disposal.

Tax may be payable on any capital gain made when the disposal value is more than its cost base (purchase amount). If your cryptocurrency is an investment for 12 months or more, you may be entitled to the CGT discount (50%) to reduce a capital gain you made when you dispose of it. If you have a net capital loss, you can use that loss to reduce a capital gain you make in a later year. You can't deduct a net capital loss from your other income.

If you're carrying on a business and using Bitcoin, the funds or property you receive through the acquisition and disposal of cryptocurrency are considered ordinary assessable income from which you may claim deductions. Proceeds from the sale of cryptocurrency held as trading stock in a business are considered ordinary income.

The types of businesses involving cryptocurrency include cryptocurrency traders, cryptocurrency mining businesses and cryptocurrency exchange businesses (including ATMs).

Record Keeping

Details of any Bitcoin transaction is essential, and should include:

- The date of each transaction
- The value of the cryptocurrency in Australian dollars at the time of transaction
- The purpose of the transaction
- The details of the other party involved.

If you want to claim the personal use exemption, you'll need to be able to prove that you used your cryptocurrency to buy an item or service for personal use. These records should include:

- Receipts of cryptocurrency purchases or transfers
- Exchange records
- Records of agent, accountant and legal costs
- Digital wallet records and keys
- Software costs associated with the management of your tax affairs

Pro Tax Tip: Keep a record of each transaction as they are completed. This will make it much easier to keep a track of all of the information you need before 30 June.

Tax Implications

Dealing with cryptocurrency is complex and complicated, and is constantly evolving. While some people have the knowledge to deal accurately with cryptocurrency, most people will be better off getting help from a tax accountant or registered tax agent to help you better understand your obligation and tax implications before you start trading.

Make sure your Tax Accountant has the specialist knowledge you need. This is a new area of taxation and some agents might not have the knowledge to provide accurate advice. You don't want a headache at tax time without knowing what investing in this technology involves.

ITP Tax Accountants have helped Australia individuals and businesses for 50 years, and are highly trained in specialist areas of tax and investing. Speak with an ITP Tax Accountant today if you're considering investing and trading in cryptocurrency.