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Taxation Treatment of Bitcoin (Cryptocurrency)

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Augmentors

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Overview

- Cryptocurrency has become a more commonly used digital asset for purposes of being utilised as a medium of exchange using cryptography and securing transactions.
- The cryptocurrency framework also serves to control the scope and extent of the creation of additional units of the currency.
- Bitcoin, which emerged in its current guise in 2009, is of course now one of the more commonly known cryptocurrencies.

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Overview

- The nature of Bitcoin as a cryptocurrency has been described as being neither a "*Commodity nor Currency*".
- In the prevailing market, Bitcoin is of course now a worldwide cryptocurrency and digital payment system.
- It was originally invented by an unknown group of computer programmers operating under the name of "Satoshi Nakamoto" who is of course widely credited as its originator.
- It was widely released as open source code in January 2009.

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Overview

- In addition to Bitcoin, there are also other cryptocurrencies, including Ethereum, Litecoin, Monero and New Economy Movement, (each) tailoring their currency for a special purpose.
- According to research (Cambridge University), there are more than 6 million subscribers holding and using a cryptocurrency wallet.

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Overview

- There are over 1,200 different cryptocurrencies, with Bitcoin having the largest market capitalisation
- This is now well in excess of USD$100 billion.

Overview

NOTE

- While the task of addressing the tax treatment of each cryptocurrency is beyond the scope of our discussion, we will canvass the tax treatment of Bitcoin and other mainstream crypto or digital currencies that have similar characteristics.

Mechanics

- Bitcoin operates as a decentralised payment network.
- The system is decentralised in that it is not under the control of a central authority or government.
- The process through which bitcoins are created and enter into circulation is referenced as bitcoin mining.
- Bitcoins that are in circulation can be acquired either by exchanging monetary currency for them through an online exchange, or by accepting them as a gift, or in exchange for goods and services.

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Mechanics

- As a digital currency, bitcoins are sent and received via digital addresses.
- The system uses key cryptography to make and verify digital signatures used in bitcoin transactions.
- Users are assigned a private access key enabling access to bitcoins stored in a digital wallet.
- Users are able to transfer money without utilising centralised banks and third-party payment channels.
- The bitcoin network is controlled by encrypted software which serves to maintain a high level of security and anonymity.

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Key Components

- Blockchain - facilitates secure online transactions (bitcoin transaction).
- It consists of two types of records:
  - Transactions, and
  - Blocks.
- Transactions – denotes the volume of bitcoins purchased which must carry the digital signature of every input (transaction) owner.
- Blocks - hold batches of valid transactions using cryptography.

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Key Components

- Mining – is a record-keeping service performed through a computer system.
- Wallets – stores the digital credentials of bitcoin holdings.
- Transaction fees – fees are based on storage size of transactions generated.
- Supply - 12.5 bitcoins per block until 2020, and then afterwards 6.25 bitcoins per block for 4 years until next halving.
- This halving continues until 2040, when 21 million bitcoins will have been issued.

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Key Components

- As noted, Bitcoin is one of many cryptocurrencies, with alternatives to Bitcoin often being referred to as the Altcoins.
- On the Bitcoin blockchain, transactions take place between users directly (peer-to-peer) and are verified by a network.
- Transactions on the blockchain only become permanent once they are verified by the network.
- The network is represented by a community of nodes (ie host computers) which run Bitcoin software.
- Through the use of computer processing power, each member of the network is repeatedly updating and verifying transactions on its copy of the ledger, which helps to keep the blockchain consistent, complete and unalterable.

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Key Components

- The verification service carried out by members of the network is called ‘mining’, and the reward for this service comes in the form of new Bitcoin and a share in transaction costs.
- Other blockchain-based cryptocurrencies may have different bases of providing rewards.
- The Bitcoin blockchain maintains a record of ownership without the need for a central authority or government backing.

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Key Components

- In order to purchase bitcoin, you need to have a “bitcoin wallet”. A wallet is a software program (there are many providers of such software).
- Once the necessary software has been downloaded, you have, in essence, opened a “bank account” with a zero balance.
- A wallet stores and manages your “public key” and “private key”.
- The public key is for receiving money and the private key for spending money.
- The public key and the private key are mathematically related.

Key Components

- A private key can be transformed mathematically into a public key, but this function can only to performed in one direction.
- It is impossible to reverse the calculation, therefore it is safe to reveal the public key.
- An address is a hashed version of the public key, which basically means a bitcoin address
- Sometimes the terms public key and addresses are used interchangeably.
- In practice, a bitcoin address as it appears above is used to receive bitcoin.
- Each time bitcoin is received, a new address is created by the wallet.

Key Components

- It's crucial that the private keys remains confidential.
- Anyone having access to a private key has complete control over the stored bitcoin.
- Anyone having access to a wallet also has access to all the private keys in it. A wallet may have the function to export private keys.
- It is important that both the wallet and the private key are kept secure.
- The wallet also keeps track of the transactions made, with time stamps on each transaction.

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Investment Audit Trail Challenges

- One compliance challenge for investing bitcoin through and investment vehicle including a SMSF is that the wallet does not have the SMSF title or any title on it.
- A wallet does not have any title on it.
- While title and ownership are fundamental concepts for regulatory and SMSF compliance, bitcoin is pseudonymous by design.

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Investment Audit Trail

Challenges

- An online wallet can potentially show the trustee's name.
- However, it is not recommended to have private keys stored online, especially when the investment is significant.
- Blockchain technology itself is robust, but private keys and passwords are still vulnerable in traditional ways.
- In theory and in reality, one can have multiple wallets.
- Each time a transaction occurs, there is a new address to it.
- It can of course be messy to create an audit trail under these circumstances.

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Bitcoins in circulation

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- Fiat currencies (dollars, euros, yen, etc.) have an unlimited supply.
- Central banks can issue as many as they want, and can attempt to manipulate a currency's value relative to others.
- Holders of the currency (and especially citizens with little alternative) bear the cost.

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- With bitcoin, on the other hand, the supply is tightly controlled by the underlying algorithm.
- A small number of new bitcoins released out every hour, and will continue to do so at a diminishing rate until a maximum of **21 million** has been reached.
- This makes bitcoin more attractive as an asset
- In theory, if demand grows and the supply remains the same, the value will increase.

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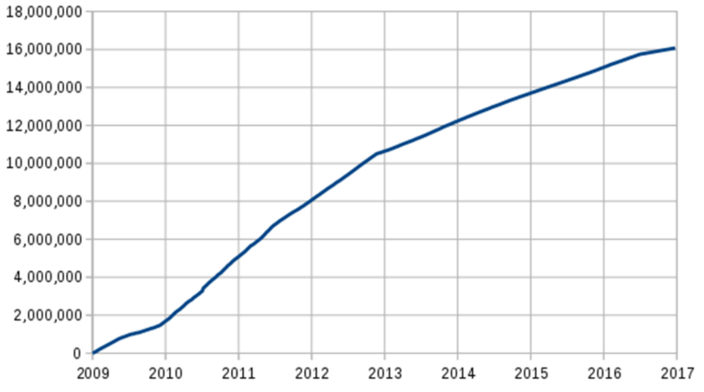

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Security

When using an online service such as an bitcoin exchange:

- Enable 2-Factor-Authentication (like Google authenticator) on your account.
- Always have direct control of your bitcoins (private keys).
- If you don't have the keys, you don't control the bitcoins.
- Make regular backups of your bitcoin wallet.

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Tax Treatment

Tax treatment

- Cryptocurrency is a key surveillance area for the tax office – it is engaging in external consultation in a bid to monitor tax compliance and ensure general awareness of the associated tax obligations.

Relevant media comments by ATO (Accountants Daily):

- "The ATO is meeting with key advisers including tax experts and lawyers who have an interest in crypto currencies, to explore common queries from clients, practical issues and the tax implications arising from crypto currency transactions.
- This will help inform the ATO's strategy for supporting the community in understanding their tax obligations, including any further advice and guidance required…"

Tax treatment cont.

- Accountants and administrators alike are finding a notable spike in client enquiries about cryptocurrencies, often translating into trading.
- Anecdotally, these clients are not experienced investors.
- A lot of enquiries we get are from people that have never invested before and have relatively small holdings.
- Similarly, superannuation administrators have seen a “significant” increase in enquiries from advisers, who are querying how to respond to their clients about the appropriateness of cryptocurrency for a super fund.

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Tax treatment cont.

- The FOMO (fear of missing out) in the market is notable – even in the advised space – likening it to the technology bubble of 2001 that followed a period of intense speculation and growth in internet-based companies, many of which went bust.
- Prevailing market activity is seemingly speculative at this stage, it is not necessarily adopted as a mainstream investment.
- The nature of the speculation philosophy is that it is more akin to gambling.
- Financial advisors are still cautious as it is considered that there are still too many unknowns, and do not necessarily believe it is a good strategic fit within superannuation,

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Tax treatment cont.

- It is envisaged that tax governance and compliance issues relating to cash dealings (black economy) are likely to increase with the ongoing development and roll-out of electronic payment systems.
- From a tax perspective, Bitcoin was originally classified by the Commissioner of Taxation in Taxation Determination TD 2014/26 as a “personal use asset”.

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Tax treatment cont.

- Where a person or entity has purchased Bitcoin for investment and is not carrying on a business of Bitcoin investment, any profit from resale will generally be assessable as a capital gain and not on revenue account.
- The threshold question is whether someone buying Bitcoin can evidence that it was purchased for investment purposes
- The ATO view is that this is a difficult argument to sustain when there is no expectation of a periodic return, such as rent from an investment property or dividends from listed shares.
- ATO may generally consider that the buyer did so for a profit-making purpose and not for investment.

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Tax treatment cont.

- Generally, there are no income tax or GST implications if a taxpayer is not in business or carrying on an enterprise and simply pays for goods or services in bitcoin (e.g. acquiring personal goods or services on the internet using bitcoin).
- Where taxpayers use bitcoin to purchase goods or services for personal use or consumption, any capital gain or loss from disposal of the bitcoin is to be disregarded (as a personal use asset) provided the cost of the bitcoin is $10,000 or less (TD 2014/26):
- *Bitcoin that is kept or used mainly to make purchases of items for personal use or consumption ordinarily will be kept or used mainly for personal use.*

Tax Treatment….cont.

- *Taxation Determination TD 2014/25,* the Commissioner expressed the view that bitcoin is not “money” within the ordinary meaning of that word
- Furthermore, it does not constitute “currency” or “foreign currency” in the context in which those terms operate for the purposes of Australian tax law.
- It would not be a “foreign currency” for the purposes of Div 775 of ITAA 1997 which contains rules for recognising foreign currency gains and losses for income tax purposes.
- ATO view is that transacting with bitcoins is essentially a barter arrangement, with similar tax consequences.

Tax Treatment….cont.

- As noted Bitcoin can be considered a (personal use) asset for **CGT** purposes,
- Thus disposal of bitcoin to a third party may give rise to a capital gain or loss that may be disregarded to the extent it falls within the personal use asset exemption framework.
- This CGT treatment may also apply to bitcoin wallets or private keys *(TD 2014/26*).

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Tax Treatment….cont.

- If Bitcoin has been held as an investment by certain individuals and trusts for more than 12 months, a 50% CGT discount may apply to reduce the taxable gain by 50%.
- As Altcoins are commonly purchased using Bitcoin, and not cash, it may be difficult to access the 50% CGT discount unless the original Bitcoin has been held for 12 months.
- In any event, there may be little gain or loss where Bitcoin is purchased and disposed of in a short period of time to purchase Altcoin.

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Tax Treatment….cont.

- ATO view is that Bitcoin is neither money nor a foreign currency.
- However, in such circumstances, the CGT rules or the profit-making scheme rules may operate similarly to the foreign currency tax rules in calculating the gain or loss on conversion from Bitcoin to Altcoin.

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Tax Treatment….cont.

- If intention in purchasing Bitcoin is to use it to buy goods or services for personal consumption (ie retail goods, home utility services or food and beverages) then, any profit from resale will be assessable as a capital gain and the 50% discount may apply.
- However, where the original cost of purchase was under $10,000, any gain in this instance will be **tax free** as it is a 'personal use asset'.

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Tax Treatment….cont.

Example:

- *Sarah bought $4,000 of Bitcoin on 1 January 2013 with the intention that, once it became more widely accepted, it would be used to buy goods or services for personal consumption.*
- *Sarah has not yet disposed of her original Bitcoin, as popular uptake has been slow, and her original Bitcoin are now worth $20,000.*
- *Over the course of 2017, Sarah spends her Bitcoin on coffee, food, drink and a gym membership.*
- *Sarah will pay no tax on the gain that she made of $16,000.*

NOTE

- **It is important to remember that, each time Bitcoin is used to purchase goods or services for personal consumption, or Altcoin, it will be considered as a disposal for tax purposes.**

Tax Treatment….cont.

- Bitcoin may also be treated as trading stock (TD 2014/27);
- *The term 'trading stock' is defined in subsection 70-10(1) as:*
- *Bitcoin held by a taxpayer carrying on a business of mining and selling bitcoin, or a taxpayer carrying on a Bitcoin exchange business will be considered to be trading stock.*
- *Bitcoin received as a method of payment by any business that sells goods will also be considered to be trading stock of that business where the bitcoin is held for the purposes of sale or exchange in the ordinary course of the business.*

Tax Treatment….cont.

- For traders, speculators and those who buy Bitcoin with a profit-making purpose, any profit from resale will be assessable income
- That is, on revenue account and not on capital account (unless such activity can be classified as a hobby).
- Expenses incurred in purchasing Bitcoin will be fully deductible for traders/speculators.
- A profit-making purpose may well prevail in many cases, as Bitcoin does not necessarily entitle the holder to a periodic return as with assets such as property or shares.

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Tax Treatment….cont.

- Even if Bitcoin is held for a significant period of time, it may still be considered to have been purchased for a profit-making purpose, particularly in light of the absence of a periodic return.
- However, as more market participants accept Bitcoin as payment, there may be an enhanced basis to argue Bitcoin was purchased for purpose other than speculation or profit making.

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Tax Treatment….cont.

- If you receive Bitcoin in return for goods or services you provide through your business, you will need to include its Australian dollar value in your businesses ordinary income.
- Similarly, if you are carrying on a business you will be entitled to a deduction for goods or services you purchase using Bitcoin.
- The easiest way to determine the Australian dollar value of Bitcoin is through a reputable Bitcoin exchange.

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Tax Treatment….cont.

- If you are carrying on a business of buying and selling Bitcoin as an exchange service, the Bitcoin you hold will be considered trading stock.
- All proceeds will be included in your assessable income, and you will be required to bring to account any Bitcoin on hand at the end of each income year.
- Any expenses you incur, including in the purchase of Bitcoin, will be deductible.

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Tax Treatment….cont.

- Although the ATO has not released any specific guidance, it is likely that mining Bitcoin will be considered to be carrying on a business of Bitcoin mining.
- As such, the Australian dollar value of Bitcoin rewards from mining, and any gains made from the sale of mined Bitcoin, will be included in assessable income.
- Expenses incurred in mining activities should be deductible.

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GST Treatment

- The GST application to to Bitcoin was originally espoused by the Commissioner in *GST Ruling GSTR 2014/3.*
- Pursuant to that Ruling, a transfer of bitcoin from one entity to another is a 'supply' for GST purposes.
- The exclusion from the definition of supply for supplies of money does not apply to bitcoin because, in accordance with the ATO view as expressed in GSTR 2014/3
- **In GSTR 2014/3 the ATO view was that bitcoin is not 'money' for the purposes of the GST Act**

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GST Treatment

- Pursuant to GSTR 2014/3, ATO asserted that Bitcoin is not “goods”, and therefore cannot be the subject of a taxable importation.
- However, interestingly, an offshore supply of bitcoin can be a taxable supply under the ‘reverse charge’ rules in Division 84.

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GST Legislation Amendment

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- The Government announced that from 1st July 2017 digital currency would bear the same GST treatment as money.
- The amendments originally tabled by Treasury (30th Oct 2017) is resonated in the *GST Act, A New Tax System (Goods and Services Tax) Act 1999,* on the GST treatment of cryptocurrencies which advertently displaces the Commissioner's original position.
- Consequently, Bitcoin's double GST treatment has been removed.
- The amendments centred on "double taxation" of digital currency and defining digital currency for the purposes of the GST law.

NOTE

- **The amendment aligns GST treatment of digital currency consistent with money.**

For the purposes of the GST Act, the term **'money' and 'digital currency'** are defined in section 195-1 as:

- currency (both Australian and foreign);
- promissory notes, bills of exchange;
- negotiable instruments used, circulated or intended for use or circulation as currency;
- postal notes and money orders; and
- payments by way of credit or debit cards, crediting or debiting an account or the creation or transfer of a debt. However, the definition also provides that money does not include:
- collector's pieces;
- investment articles;
- items of numismatic interest; and
- currency the market value of which exceeds its stated value as legal tender in the country of issue.

New law	Current law
Digital currency supplies and acquisitions	
Supplies and acquisitions of money and digital currency are disregarded for the purposes of the GST, unless the supply or acquisition is undertaken in exchange for a payment of money or digital currency. Digital currency means fungible digital units of consideration that do not have a value based on the value of any other thing or associated entitlements.	Supplies and acquisitions of money are disregarded for the purposes of the GST, unless the supply or acquisition is undertaken in exchange for a payment of money. No special rules apply to supplies and acquisitions of digital currency.
Commissioner may determine method for valuing foreign or digital currency	
The Commissioner may determine how to work out the value in Australian currency of a taxable supply where consideration was provided in foreign currency or digital currency.	The Commissioner may determine how to work out the value in Australian currency of a taxable supply where consideration was provided in foreign currency.

Claiming GST credits

- Sales of digital currency are input taxed sales (financial supplies) which means:
- don't pay GST on the sales of digital currency made
- generally can't claim GST credits for the GST included in price paid for anything purchased to make those sales.
- However, may be able to claim GST credits on purchases used to make digital currency sales in following situations:
  - if financial acquisitions threshold is not exceeded - entitled to full GST credits for purchases relating to digital currency sales
  - if financial acquisitions threshold is exceeded - may be able claim reduced GST credits if specific type of purchase is made.

Receiving digital currency as payment

- If you receive digital currency as payment for your sales of goods and services normal GST rules apply.
- For example, if you make a taxable sale of goods for which you received digital currency as payment, you are required to remit 1/11th of the payment received for that taxable sale.
- This amount of GST you remit and report on your activity statement.

GST treatment- example

- *David, an Australian consumer, acquires 500 Ozcoins (a digital currency) from Ozco, an Australian resident company that is registered for GST, paying partly in Australian dollars and partly in US dollars.*
- *The supply of the Ozcoins by Ozco to David is a supply of digital currency.*
- *It is not disregarded for the purposes of GST as it is a supply of digital currency for money (specifically Australian and foreign currency). Instead, the supply by Ozco is an input taxed financial supply.*
- *As a result, the supply by Ozco is not a taxable supply and input tax credits are not generally available for any related acquisitions Ozco may have made.*
- *David's supply of money to Ozco is also not disregarded as it is a supply of money for digital currency.*
- *However, as David is not registered or required to be registered for GST no further consequences apply.*

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- *David subsequently uses 11 Ozcoins to purchase a coffee and donut from Loretta's Bakery, an Australian resident company.*
- *David's supply of digital currency to Loretta's Bakery is not considered a supply for the purposes of GST (although in this case it does not matter as David is not registered or required to be registered for GST).*
- *The GST law applies normally to the supply of the coffee and donut by Loretta's Bakery – the fact that the consideration was digital currency is irrelevant.*
- *If the supply is a taxable supply, Loretta's Bakery must remit 1/11th of the consideration provided by David in relation to the supply (ie. an amount of money equivalent in value to one Ozcoin in Australian dollars) to the Commissioner as GST.*
- *All of these outcomes would be the same if David had instead acquired and spent money.*

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Recent ATO Guidance

Recent ATO Guidance

- The Commissioner has recently provided more definitive guidance on the tax treatment of transactions that involve cryptocurrency.
  https://www.ato.gov.au/General/Gen/Tax-treatment-of-crypto-currencies-in-Australia---specifically-bitcoin/

Recent ATO Guidance https://www.ato.gov.au/General/Gen/Tax-treatment-of-crypto-currencies-in-Australia---specifically-bitcoin/

General treatment

- The Commissioner states that CGT event occurs when a taxpayer disposes of cryptocurrency
- This could occur when they:
  - sell or gift cryptocurrency,
  - trade or exchange cryptocurrency,
  - convert cryptocurrency to fiat currency like Australian dollars, or
  - use cryptocurrency to obtain goods or services.

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Recent ATO Guidancehttps://www.ato.gov.au/General/Gen/Tax-treatment-of-crypto-currencies-in-Australia---specifically-bitcoin/

General Treatment

- If a taxpayer disposes of one cryptocurrency to acquire another cryptocurrency, they dispose of one CGT asset and acquire another CGT asset and a CGT event arises.
- If the cryptocurrency you received cannot be valued, the capital proceeds from the disposal are worked out by using the market value of the cryptocurrency disposed of at the time of the transaction.

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General Treatment

- If the disposal is part of a business, the profits will be assessable as ordinary income and not as a capital gain.
- However, if the cryptocurrency was acquired as an investment, the taxpayer may have to pay tax on any capital gain made on disposal.
- If the taxpayer holds cryptocurrency as an investment for 12 months or more, they may be entitled to the CGT discount.

Recent ATO Guidancehttps://www.ato.gov.au/General/Gen/Tax-treatment-of-crypto-currencies-in-Australia---specifically-bitcoin/

Personal use asset exemption

- Cryptocurrency will only be a personal use asset if it is kept or used mainly to purchase items for personal use or consumption.
- Capital gains made from personal use assets acquired for less than $10,000 are disregarded, but all capital losses made on personal use assets are disregarded
- Cryptocurrency is capable of being acquired, held and transacted with
- Both the period of holding and the nature of the subsequent transaction will be relevant to whether your cryptocurrency is a personal use asset
- The relevant time for determining whether or not an asset is a personal use asset is at the time of its disposal.

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Personal use asset exemption

- During a period of ownership, the way that cryptocurrency is kept or used may change.
- For example, cryptocurrency may originally be acquired for personal use and enjoyment, but ultimately be kept or used as an investment, to make a profit on ultimate disposal or as part of carrying on a business.
- The longer the period of time that a cryptocurrency is held, the less likely it is that it will be a personal use asset.
- Cryptocurrency is not a personal use asset if it is acquired, kept or used as an investment, in a profit-making scheme, or in the course of carrying on a business.

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Personal use asset exemption

- Taxpayers may have to exchange a cryptocurrency owned to Australian dollars (or to a different cryptocurrency) to purchase or acquire the items for personal use or consumption
- ATO view is that this would strongly indicate the cryptocurrency was acquired, held and used for a purpose other than personal use or enjoyment.

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Personal use asset exemption

Example 1

Michael wants to attend a concert.
The concert provider offers discounted ticket prices for payments made in cryptocurrency.
Michael pays $270 to acquire cryptocurrency and uses the cryptocurrency to pay for the tickets on the same day.
Having regard to the circumstances in which Michael acquired and used the cryptocurrency, the cryptocurrency is a personal use asset.

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Personal use asset exemption

Example 1

Scenario:
Michael wants to attend a concert.
The concert provider offers discounted ticket prices for payments made in cryptocurrency.
Michael pays $270 to acquire cryptocurrency and uses the cryptocurrency to pay for the tickets on the same day.

Outcome:
Having regard to the circumstances in which Michael acquired and used the cryptocurrency, the cryptocurrency is a personal use asset.

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Personal use asset exemption

Example

Scenario:
Peter has been regularly keeping cryptocurrency for over six months with the intention of selling at a favourable exchange rate.
He has decided to buy some goods and services directly with some of his cryptocurrency.

Outcome:
Because Peter used the cryptocurrency as an investment, the cryptocurrency is not a personal use asset.

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Loss or theft of cryptocurrency

- The Commissioner states that a taxpayer may able to claim a capital loss if you lose your cryptocurrency private key or your cryptocurrency is stolen
- Generally, where an item can be replaced it is not lost.
- A lost private key cannot be replaced.

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Loss or theft of cryptocurrency

To claim a capital loss the following kinds of evidence would be required:

- when you acquired and lost the private key
- the wallet address that the private key relates to
- the cost you incurred to acquire the lost or stolen cryptocurrency
- the amount of cryptocurrency in the wallet at the time of loss of private key
- that the wallet was controlled by you
- that you are in possession of the hardware which stores the wallet, and
- transactions to the wallet from a digital currency exchange for which you hold a verified account or is linked to your identity.

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Cryptocurrency chain splits

- It may be that a taxpayer holds cryptocurrency as an investment and receive a new cryptocurrency as a result of a chain split
- In such a case, they do not derive ordinary income or make a capital gain at that time as a result of receiving the new cryptocurrency.
- A new cryptocurrency received as a result of a chain split in relation to cryptocurrency held in a business will be treated as trading stock where it is held for sale or exchange in the ordinary course of the business.

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Cryptocurrency chain splits

EXAMPLE

Scenario:
Alex held 10 Bitcoin on 1 August 2017 as an investment, when Bitcoin Cash split from Bitcoin.
Immediately after the chain split, Alex held 10 Bitcoin and 10 Bitcoin Cash. Alex does not derive ordinary income or make a capital gain as a result of the receipt.
On 25 May 2018, Alex sold the 10 Bitcoin Cash for $4,000.

Outcome:
Because the cost base of the Bitcoin Cash was zero, Alex makes a total capital gain of $4000 in the 2017-18 income year from the sale of the Bitcoin Cash.

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Administration & Compliance

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Administration & Compliance

- Taxpayers have an obligation to report assessable income each income year and to keep appropriate records to support income tax return disclosures.
- Given the decentralised and unobservable nature of cryptocurrency, it is likely ATO and other government agencies will not be able to track all transactions and trades – at least for the time being.
- However, if living beyond your perceived means and reported income, taxpayers may nevertheless face an ATO review or audit.
- Decline in bank account activity could also be a trigger for ATO review or audit.

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Administration & Compliance

- If the ATO conducts a review or audit and has reason to believe that taxpayer has not reported all assessable income, it may issue an amended income tax assessment.
- ATO may also issue default income tax assessment and estimate assessable income based on what they consider reasonable grounds.
- If issued with amended or default assessment, taxpayer has onus of objecting to assessment and proving it is excessive.

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Administration & Compliance

- Regardless of circumstances, if transacting in Bitcoin taxpayers should keep a record of all trades and activity.
- In this regard, many exchanges will allow access and downloading of transaction history.
- If purchasing Bitcoins for both personal use and speculation, it is particularly important to keep clear records.
- This is because it is up to taxpayer to demonstrate intention behind each purchase and transaction.

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https://www.ato.gov.au/General/Gen/Tax-treatment-of-crypto-currencies-in-Australia---specifically-bitcoin/

Record keeping

- Vital to keep good records for all your transactions with cryptocurrency, whether you are using cryptocurrency as an investment, for personal use or in business.

You need to keep the following records in relation to your cryptocurrency transactions:

- the date of the transactions
- the value of the cryptocurrency in Australian dollars at the time of the transaction (which can be taken from a reputable online exchange)
- what the transaction was for and who the other party was (even if it's just their cryptocurrency address)

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Record keeping

Key information to have records of:

- receipts of purchase or transfer of cryptocurrency
- exchange records
- records of agent, accountant and legal costs
- digital wallet records and keys
- software costs related to managing your tax affairs

- Taxpayers can use an accountant or third party software to help meet your record keeping obligations and working out your tax.

The important messages to take away are:

- Given the recent upward movement in value of Bitcoin, don't assume that profit on Bitcoin transactions is not taxable or is subject to CGT.

- Even if no reporting of gains from Bitcoin transactions, ATO may issue amended or default assessments

NOTE

- **Keep clear records transactions, activities and the intentions behind them, particularly if purchasing Bitcoin both for personal use and for speculative gain.**

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Thank you