Australian Government
Australian Taxation Office

Tax treatment of crypto-currencies in Australia - specifically bitcoin

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

The term cryptocurrency is generally used to describe a digital asset in which encryption techniques are used to regulate the generation of additional units and verify transactions on a blockchain. Cryptocurrency generally operates independently of a central bank, central authority or government.

The creation, trade and use of cryptocurrency is rapidly evolving. This information is our current view of the income tax implications of common transactions involving cryptocurrency. Any reference to 'cryptocurrency' in this guidance refers to Bitcoin, or other crypto or digital currencies that have the same characteristics as Bitcoin.

If you are involved in acquiring or disposing of cryptocurrency, you need to be aware of the tax consequences. These vary depending on the nature of your circumstances.

Everybody involved in acquiring or disposing of cryptocurrency needs to keep records in relation to their cryptocurrency transactions.

If you have dealt with a foreign exchange and/or cryptocurrency there may also be taxation consequences for your transactions in the foreign country.

See also:

- ASIC's Money Smart website has some useful information on the risk involved in investing in cryptocurrencies
- SMSF investing in cryptocurrencies
- GST and digital GST and digital currency

Find out about:

Transacting with cryptocurrency

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A CGT event occurs when you dispose of your cryptocurrency. A disposal can occur when you:

- sell or gift cryptocurrency
- trade or exchange cryptocurrency (including the disposal of one cryptocurrency for another cryptocurrency)
- convert cryptocurrency to fiat currency like Australian dollars, or
- use cryptocurrency to obtain goods or services.

If you make a capital gain on the disposal of a cryptocurrency, some or all of the gain may be taxed. Certain capital gains or losses from disposing of a cryptocurrency that is a personal use asset are disregarded.

If the disposal is part of a business you carry on, the profits you make on disposal will be assessable as ordinary income and not as a capital gain.

While a digital wallet can contain different types of cryptocurrencies, each cryptocurrency is a separate CGT asset.

See also:

- Personal use assets
- Cryptocurrency businesses
- Using cryptocurrency for business transactions

Exchanging a cryptocurrency for another cryptocurrency

If you dispose of one cryptocurrency to acquire another cryptocurrency, you dispose of one CGT asset and acquire another CGT asset. Because you receive property instead money in return for your cryptocurrency, the market value of the cryptocurrency you receive needs to be accounted for in Australian dollars.

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 you disposed of at the time of the transaction.

See also:

- Record keeping
- Capital Proceeds

Example

On 5 July 2017, Katrina acquired 100 Coin A for $15,000. On 15 November 2017, through a reputable digital currency exchange, Katrina exchanged 20 of Coin A for 100 of Coin B.

Using the exchange rates on the reputable digital currency exchange at the time of the transaction, the market value of 100 Coin B was $6,000. For the purposes of working out Katrina's capital gain for her disposal of Coin A, Katrina's capital proceeds are $6,000.

Cryptocurrency as an investment

If you acquire cryptocurrency as an investment, you may have to pay tax on any capital gain you make on disposal of the cryptocurrency.

You will make a capital gain if the capital proceeds from the disposal of the cryptocurrency are more than its cost base. Even if the market value of your cryptocurrency changes, you do not make a capital gain or loss until you dispose of it.

If you hold the cryptocurrency as an investment, you will not be entitled to the personal use asset exemption. However, if you hold your cryptocurrency as an investment for 12 months or more, you may be entitled to the CGT discount to reduce a capital gain you make when you dispose of it.

If you have a net capital loss you can use it to reduce a capital gain you make in a later year. You cannot deduct a net capital loss from your other income.

You are required to keep records of each cryptocurrency transaction in order to work out whether you have a made a capital gain or loss from each CGT event.

Example

Terry has been a long term investor in shares and has a range of holdings in various public companies in a balanced portfolio of high and low risk investments. Some of his holdings are income producing and some not, and he adjusts his portfolio frequently at the advice of his adviser.

Recently, Terry's adviser told him that he should invest in cryptocurrency. On that advice Terry purchased a number of different cryptocurrencies which he has added to his portfolio. Terry doesn't know much about cryptocurrency but, as with all of his investments, he adjusts his portfolio from time to time in accordance with appropriate investment weightings.

If Terry sells some of his cryptocurrency the proceeds would be subject to CGT because he has acquired and held his cryptocurrency as an investment.

See also:

- The discount method of calculating your capital gain
- Capital gains tax

Personal use asset

Cryptocurrency is only 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.

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.

If you have to exchange a cryptocurrency you own to Australian dollars (or to a different cryptocurrency) to purchase or acquire the items for personal use or consumption, then this strongly indicates the cryptocurrency you own was acquired, held and used for a purpose other than personal use or enjoyment.

Some capital gains or losses that arise from the disposal of cryptocurrency that is a personal use asset may be disregarded.

Cryptocurrency may be a personal use asset if it is kept or used mainly to purchase items for personal use or consumption. Only capital gains you make from personal use assets acquired for less than $10,000 are disregarded for CGT purposes. However, all capital losses you make on personal use assets are disregarded.

Example

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.

Example

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

See also:

- Personal use assets

Loss or theft of cryptocurrency

You may be able to claim a capital loss if you lose your cryptocurrency private key or your cryptocurrency is stolen.

In this context the issue is likely to be whether the cryptocurrency is lost, whether you have lost evidence of your ownership, or whether you have lost access to the cryptocurrency.

Generally where an item can be replaced it is not lost. A lost private key cannot be replaced. Therefore, to claim a capital loss you will need to be able to provide the following kinds of evidence:

- 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 (for example, transactions linked to your identity)
- that you are in possession of the hardware which stores the wallet
- transactions to the wallet from a digital currency exchange for which you hold a verified account or is linked to your identity.

See also:

- Elements of the cost base and reduced cost base
- The discount method of calculating your capital gain
- Record keeping

Chain splits

Cryptocurrency held as an investment

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. For the purposes of 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.

Example

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. 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.

Cryptocurrency held in a business you carry on

A new cryptocurrency you receive as a result of a chain split in relation to cryptocurrency held in a business that you carry on will be treated as trading stock where it is held for sale or exchange in the ordinary course of the business, and must be brought to account at the end of the income year.

Cryptocurrency used in business

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If you are carrying on a business that involves transacting with cryptocurrency the trading stock rules apply, rather than the CGT rules.

Cryptocurrency businesses

If you hold cryptocurrency for sale or exchange in the ordinary course of your business the trading stock rules apply, and not the CGT rules. 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.

Examples of businesses that involve cryptocurrency include:

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

Not all people acquiring and disposing of cryptocurrency will be carrying on businesses. To be carrying on 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.

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’re 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.

Example

Sachin is in the business of trading cryptocurrency. On 15th December 2017, he purchases 1,500 Coin A for $150,000. On the same day, he sells 1,000 Coin A for $200,000. As Sachin holds the cryptocurrency for sale or exchange in the ordinary course of his business, Sachin can claim a deduction for $150,000 for the acquisition for Coin A and declares income of $200,000 for the later sale of Coin A.

See also:

- Are you in business?
- TR 97/11 Income tax: am I carrying on a business of primary production?
- Simplified trading stock rules
- Small business entity concessions
- Income and deductions for businesses
- TR 92/3 Income tax: whether profits on isolated transactions are income
- Mining cryptocurrency

Using cryptocurrency for business transactions

If you are carrying on a business that is not a cryptocurrency business, but use cryptocurrency in your activities you need to account for cryptocurrency as you would for other assets or items used in your business.

If you receive cryptocurrency for goods or services you provide as part of your business, you need to include the value of the cryptocurrency in Australian dollars as part of your ordinary income. This is the same process as receiving any other non-cash consideration under a barter transaction.

One way of determining the value in Australian dollars is the fair market value which can be obtained from a reputable cryptocurrency exchange.

Where you purchase business items using cryptocurrency (including trading stock) you are entitled to a deduction based on the market value of the item acquired.

See also:

- IT 2668 – Income tax: barter and countertrade transaction

Paying salary or wages in cryptocurrency

Where an employee has a valid salary sacrifice arrangement with their employer to receive cryptocurrency as remuneration instead of Australian dollars, the payment of the cryptocurrency is a fringe benefit and the employer is subject to the provisions of the *Fringe Benefits Tax Assessment Act 1986*.

The benefit will be a property benefit whose value is established at the time of provision of the benefit.

In the absence of a valid salary sacrifice agreement, the employee is considered to have derived their normal salary or wages and the employer will need to meet their pay as you go obligations on the Australian dollar value of the cryptocurrency it pays to the employee. An example of this is where an employee has already earned their salary or wages and then asks to be paid in cryptocurrency instead.

See also:

- TR 2001/10 – Income tax: fringe benefits tax and superannuation guarantee: salary sacrifice arrangements
- TD 2014/28 – Fringe benefits tax: is the provision of bitcoin by an employer to an employee in respect of their employment a property fringe benefit for the purposes of subsection 136(1) of the Fringe Benefits Tax Assessment Act 1986?

Record keeping

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It is 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).

The sorts of records you should keep include:

- 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

Keeping good records will make it easier to calculate and meet your tax obligations, and if you are in business, they will assist you to manage your cash flow and see how your business is doing. You can use an accountant or third party software to help meet your record keeping obligations and working out your tax.

See also:

- Record keeping for small business
- Record keeping for CGT
- Records you need to keep

Additional information

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More information on tax treatment of bitcoin and cryptocurrencies like bitcoin can be found in the Taxation determinations below:

- TD 2014/25 – Income tax: is bitcoin a ‘foreign currency’ for the purposes of Division 775 of the Income Tax Assessment Act 1997 (ITAA 1997)?
- TD 2014/26 – Income tax: is bitcoin a CGT asset for the purposes of

subsection 108-5(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?

- TD 2014/27 – Income tax: is bitcoin trading stock for the purposes of subsection 70-10(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?
- TD 2014/28 – Fringe benefits tax: is the provision of bitcoin by an employer to an employee in respect of their employment a property fringe benefit for the purposes of subsection 136(1) of the Fringe Benefits Tax Assessment Act 1986?

Additional information from ASIC and AUSTRAC maybe useful for anyone looking to invest or transact in cryptocurrencies:

- ASIC's Money Smart website has some useful information on the risk involved in investing in cryptocurrencies
- AUSTRAC's website also has useful information on implementing amendments contained in the Anti-Money Laundering and Counter-Terrorism Financing Amendment Act 2017 released for public consultation.

Our commitment to you

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