Consultation: Substantiating cryptocurrency taxation events

6 months ago

Updated: Friday 31 August, 2018

Feedback was sought on any practical issues arising in two areas of the cryptocurrency market. The first, when exchanging one cryptocurrency for another and the second, record keeping requirements relating to cryptocurrency transactions.

Specifically, we asked the following four questions to better understand these issues from the taxpayers’ perspective.

- Are there any practical issues that arise in relation to the CGT record keeping rules, so far as cryptocurrency transactions are concerned?
- Are there any specific factors that you think we should take into account when developing further public advice and guidance about CGT record keeping for cryptocurrency?
- Are there any practical issues in relation to complying with the taxation obligations that arise for each cryptocurrency to cryptocurrency transaction?
- Are there any specific factors that you think we should take into account when developing further public advice and guidance about cryptocurrency to cryptocurrency transactions?

We received 799 pieces of feedback via the Let’s Talk response template, and 11 additional submissions from law and accounting firms, software publishers and other interested parties.

Due to the high volume of feedback, the responses were analysed for common themes and irritants. Through this process, we identified the five most frequently raised issues and our current response to these issues, as follows:

Issue 1:	**Response 1:**
In many situations, cryptocurrency transactions are not reasonably able to be accounted for on a transaction by transaction basis and the only reasonable approach is taxing on a fiat in and fiat out basis.	*The normal record keeping rules under the tax laws apply to cryptocurrency transactions as with any other transactions involving the disposal of property. As part of our research, we discovered low cost software solutions that are able to both record each cryptocurrency transaction (including cryptocurrency to cryptocurrency transactions) and convert the value of the proceeds into Australian dollars.*
Issue 2:	**Response 2:**
High fluctuations in values make it difficult to value cryptocurrency.	*We heard that high fluctuations in value could create large changes in the 'paper' value of cryptocurrency portfolios, compared to realised gains. As cryptocurrencies are generally CGT assets, any gains are not realised until the time of disposal. This is an issue in all investments, and managing this risk falls into the realm of tax planning.*
Issue 3: Records have not been kept and we can't reconstruct them now. **Issue 4:** It was hard to keep records of high volume trades, particularly in ascertaining value for each trade. **Issue 5:** Difficulty in accessing data required for proper record keeping.	**Response to Issues 3, 4 and 5:** *The normal record keeping rules under the tax laws apply to cryptocurrency transactions as with any other transactions involving the disposal of property. As part of our research, we discovered low cost software solutions that would be able to both record each cryptocurrency transaction (including cryptocurrency to cryptocurrency transactions) and convert the value of the proceeds into Australian dollars. The software can take information directly from the exchange or a digital wallet and do the calculations, which helps alleviate the issues with recording trades and accessing data. This type of software may be suitable for record keeping in cryptocurrency. Search "cryptocurrency record keeping software" for details.* *In most cases it may be possible to reconstruct records through historical information available from Digital Currency Exchanges, wallet transactions or even normal bank account transactions. Market values of various cryptocurrency can also be obtained from a reputable online exchange.*

Other issues identified and addressed as a result of the consultation feedback
A broader environmental scan of the cryptocurrency feedback identified that some people had difficulty understanding the various elements of the ATO's cryptocurrency guidance.

In response to this feedback, on 29 June 2018, we updated the Tax Treatment of Cryptocurrencies guidance on ato.gov.au:

- We aggregated the page so similar topics were included under the same heading to help people understand the context of the public advice.
- We grouped content under new topic headings to more clearly reflect where people can find the information they need. The new headings include:

    - Transacting with cryptocurrency,
    - Cryptocurrency used in business, and
    - Record keeping.
- The information about record keeping provides more detail on what records taxpayers require to substantiate their transactions. It also reasserts the high threshold required for evidence to show loss or theft of cryptocurrency.
- We also published our view on the tax treatment of new cryptocurrency received as a result of a chain split.

We will continue to monitor formal and informal feedback channels to identify ways we can improve the user experience and to advise on new and emergent risks in our ato.gov.au content.

We thank the community for their honest responses and, where possible, we will continue to look for opportunities to incorporate this feedback into our future cryptocurrency guidance.

Visit **Tax treatment of cryptocurrencies** for information about tax obligations of cryptocurrency.

Public advice and guidance community homepage

Overview

We published public advice regarding the income tax treatment of Bitcoin, and other cryptocurrency that has the same characteristics as Bitcoin, in a series of taxation determinations in 2014. Since that time, in response to questions being asked by the community, we have made minor changes to our web guidance about the taxation treatment of cryptocurrency.

Over the last 12 months, there has been increased interest in cryptocurrency in Australia and, on 13 March 2018, we updated our web guidance **Tax treatment of cryptocurrencies** to address some of the common enquiries in relation to cryptocurrency transactions. Any reference to 'cryptocurrency' in this consultation refers to Bitcoin, or other crypto or digital currencies that have the same characteristics as Bitcoin.

The purpose of this consultation is to seek feedback on practical compliance issues arising from complying with taxation obligations in relation to cryptocurrency transactions. In particular, we are interested in any practical issues that may impact on taxpayers’ abilities to calculate and substantial any capital gains and losses for capital gains tax (CGT) purposes.

Your feedback may also be taken into account when developing further advice and guidance products in relation to the taxation of cryptocurrency.

This consultation is limited to the following issues:

- record-keeping as it relates to cryptocurrency transactions, and

- exchanging one cryptocurrency for another cryptocurrency.

Feedback on these topics can be submitted through our confidential feedback form.

Go to Table of contents

Record keeping

The CGT record-keeping rules require you to keep records of whatever can reasonably be expected to be relevant to working out whether you have made a capital gain or loss from a CGT event.

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).

Questions for consultation

- Are there any practical issues that arise in relation to the CGT record-keeping rules, so far as cryptocurrency transactions are concerned?
- Are there any specific factors that you think we should take into account when developing further public advice and guidance about CGT record-keeping for cryptocurrency?

Go to Table of contents

Exchanging one cryptocurrency for another cryptocurrency

Where you exchange one cryptocurrency for another cryptocurrency, you dispose of one CGT asset and acquire another CGT asset. Where you receive property instead of cash as part of a transaction, you are usually taken to have received the market value in Australian dollars of the property received.

You must compare the CGT cost base of the cryptocurrency item disposed of with the market value of the new cryptocurrency item obtained for all exchange transactions.

Records need to be retained for each transaction, in accordance with the record keeping rules. This means that each item is separately accounted for and recorded when it is acquired and disposed of, with relevant Australian dollar values recorded.

It does not matter how many exchange transactions you undertake. You need to undertake this process for every transaction occurring during the income year.

Questions for consultation

- Are there any practical issues in relation to complying with the taxation obligations that arise for each cryptocurrency to cryptocurrency transaction?

- Are there any specific factors that you think we should take into account when developing further public advice and guidance about cryptocurrency to cryptocurrency transactions?

Go to Table of contents

Next steps:

You can provide your comments via our confidential feedback form.

Go to Table of contents OR ***Public advice and guidance community homepage***