

Bitcoin: Australia's tax office announces it will not treat popular digital currency as money

By Will Ockenden

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The Australian Taxation Office (ATO) will not treat Bitcoin transactions as money, fuelling fears the industry will be driven offshore or underground.

The ATO has released its anticipated guidance on crypto-currencies, saying Bitcoin or other digital currency payments will be taxed like a non-cash barter transaction.

The announcement dashes the hopes of Australia's digital currency industry and raises fears of the end of Bitcoin's growth in Australia, as businesses move offshore to countries with more favourable laws.

Many local businesses which accept Bitcoin as payment for goods or services had been hoping the internet currency would be treated under tax law as the same as money or foreign exchange.

Doing so makes record keeping and taxation requirements significantly easier.



PHOTO: Bitcoin is a digital currency used online as well as increasingly in physical shops.
(Reuters: Andy Clark, file photo)

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It also avoids double taxation as, under the ATO's view, businesses buying digital coins will have to pay GST on the Bitcoin and on the services they offer.

Only about 1000 businesses in Australia currently accept Bitcoin as payment. It is transferred via the internet, and, as such, countries have limited control in how it is moved around the world.

"There's been a lot of public interest in crypto-currencies," said Michael Hardy, a senior assistant commissioner at the Australian Taxation Office.

"A few taxpayers have asked us for private rulings along the way.

"We've had enough persistent queries from the public that we thought we should put out some general advice and guidance for the public."

Fears Bitcoin will be driven underground

The ATO's guidance has disappointed the Australian Bitcoin industry.

"The way they've chosen to interpret how it should be applied is unfortunately very stifling for emerging Australian digital currency businesses and the industry as a whole," said Ron Tucker, the chair of the Australian Digital Currency Commerce Association and a partner at BitTrade, a digital currency trading service.

"It's essentially a double GST effect. It is adding 10 per cent tax on the entire supply of the Bitcoin.

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How the ATO views Bitcoin:

- It is not money and it is not foreign currency.
- It is like a non-cash barter transaction, with similar tax consequences.
- There will be no income tax or GST implications if it is used for simple payments, as long as the transaction is \$10,000 or less.

"So if the Bitcoin is worth \$500 today, you'll be paying 10 per cent tax on that, as well as the GST on the service or commission fees that the Bitcoin companies may charge."

Mr Tucker said the ATO's view on Bitcoin will send business either offshore or underground.

"I've already heard from a number of our members that they are in the process of – or already have or will be – setting up shop offshore," he said.

"You could possibly see Bitcoin driven underground because of the unfair application of this tax treatment."

- But if it is for business, GST may be payable and there may be capital gains consequences.
- For people who "mine" Bitcoin, any income from selling them would be included as income.
- Expenses, such as the purchase of computer equipment for mining, would be allowed as a deduction.

Read more: Tax treatment of crypto-currencies in Australia (ATO)

Small time Bitcoin users likely to be ignored

The tax office essentially views Bitcoin transactions in one of two ways.

The first is people using Bitcoin occasionally – such as making small purchases or dabbling in digital currency mining or trading.

If the purchase amount is less than \$10,000, those people will likely be ignored by the ATO.

The second group are people who use crypto-currencies specifically for profit or business.

The ATO says, for that group, taxes like capital gains, GST or fringe benefits should be paid and records kept – including the date of the transaction, the amount, what it was for and who the other party was.

The ATO's Michael Hardy defended the tax office's guidance on digital currencies.

"It's the law. We don't make it up, we have to look at the existing law that we have," Mr Hardy said.

"We explored it [the law] carefully with input from industry experts in coming to this view.

"It just doesn't fit the legal definitions [of money or foreign currency], so we can't pretend that it is something what it's not."

Mr Hardy said for Bitcoin to be treated as money under Australian law, there would have to be a change of the legislation or another country would have to adopt Bitcoin as its national currency.

The ATO will continue to monitor developments in the technology and its use overseas.



SOUNDCLOUD: Michael Hardy is a senior assistant commissioner at the Australian Taxation Office. He spoke to ABC Radio's Will Ockenden.

Taxation liabilities will be backdated

While the ATO's guidance may have been published today, as it is based on existing laws, taxation liabilities technically apply from the day Bitcoin was created back in 2009.

Businesses or Bitcoin users could be on the hook for previous transactions.

But Mr Hardy said it is unlikely the tax office will demand payment.

"Where that's happened and where we think businesses have tried to make their best effort for the past, we don't see that it is important to be going back and applying compliance resources to past periods where people have tried to act in a bona fide fashion," he said.

"We're not planning to go back and deliberately look at past periods where we think most people have tried to make a pretty good effort to get it right with what they understood the law to be."

The ABC's AM program revealed in June that the tax office had been growing increasingly worried about the growth of Bitcoin, and had been keeping a detailed watching brief of the digital currency.

The file – obtained under Freedom of Information laws by AM – showed that, up until a few years ago, the agency was sceptical about Bitcoin, but soon realised that people could use internet currencies to avoid paying tax.

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