

## Taxation of cryptocurrency transactions

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## Executive Summary

The purpose of this manual is to give guidance on the tax treatment of various transactions involving cryptocurrencies.

The tax treatments outlined in this manual are for tax purposes only. They do not reflect on the treatment of cryptocurrencies for regulatory or other purposes.

### 1 Direct tax treatment of cryptocurrencies

The direct taxes are corporation tax, income tax and capital gains tax.

As with any other activity, the treatment of income received from / charges made in connection with activities involving cryptocurrencies will depend on the activities and the parties involved. The relevant legislation and case law must be applied to determine the correct tax treatment. Each case must be considered on the basis of its own individual facts and circumstances.

For businesses which accept payment for goods or services in cryptocurrencies there is no change to when revenue is recognised or how taxable profits are calculated. Where there is an underlying tax event on a transaction involving the use of a cryptocurrency there is a requirement in the tax code for a record to be kept of that transaction which will include any record in relation to the cryptocurrency.

Therefore no special tax rules for cryptocurrency transactions are required.

#### 1.1 Income tax

The profits and losses of a non-incorporated business on cryptocurrency transactions must be reflected in their accounts and will be taxable on normal IT rules.

#### 1.2 Corporation Tax

The profits and losses of a company entering into transactions involving cryptocurrency would be reflected in accounts and taxable under normal CT rules.

Section 402(1) TCA 1997 defines a company's functional currency, and recognises that companies can prepare their accounts in a currency other than the Euro where that other currency is their functional currency. As cryptocurrencies are not a functional currency as defined, accounts, for tax purposes, cannot be prepared in cryptocurrencies: Euro or functional currency accounts must be prepared.

#### 1.3 Capital Gains Tax and Corporation Tax on Chargeable gains

If a profit or loss on a currency contract is not within trading profits, it would normally be taxable as a chargeable gain or allowable as a loss for CT or CGT purposes. Gains and losses incurred on cryptocurrencies are chargeable or allowable for CGT if they accrue to an individual or, for CT on chargeable gains if they accrue to a company.

## 2 VAT treatment of Bitcoin and similar cryptocurrencies

The Court of Justice of the European Union (CJEU) held in the Hedqvist case (C-264/14) that Bitcoin constitutes a currency for VAT purposes. It is Revenue's view that Bitcoin and similar cryptocurrencies are regarded for VAT purposes as 'negotiable instruments' and exempt from VAT in accordance with Paragraph 6(1)(c) of the VAT Consolidation Act 2010.

### 2.1 Exchange of cryptocurrency

Financial services consisting of the exchange of bitcoins for traditional currency are exempt pursuant to Paragraph 6(1)(d) of the VAT Consolidation Act 2010, where the company performing the exchange acts as principal (i.e. buys and sells cryptocurrencies acting as the owner of the virtual currency).

### 2.2 Supplies of Goods or Services

VAT is due in the normal way from suppliers of any goods or services sold in exchange for bitcoin or other similar cryptocurrencies. The taxable amount for VAT purposes will be the Euro value of the cryptocurrency at the time of the supply.

### 2.3 Mining

Income received from cryptocurrency mining activities will generally be outside the scope of VAT on the basis that the activity does not constitute an economic activity for VAT purposes.

## 3 PAYE treatment of cryptocurrencies

Where emoluments payable to an employee are paid in a cryptocurrency, the value of the emoluments for the purposes of calculating payroll taxes is the Euro amount attaching to the cryptocurrency at the time the payment is made to the employee.

Returns to Revenue must be shown in Euro amounts and remittances made appropriately.

## 4 Valuation of cryptocurrencies

Many cryptocurrencies, such as Bitcoin, are traded on a number of exchanges. Unlike shares or commodities the value of the cryptocurrencies may vary between exchanges. Therefore, there is not always a single "exchange rate" for cryptocurrencies. A reasonable effort should be made to use an appropriate valuation for the transaction in question.