WEB3 ACCOUNTANT GLOBAL CRYPTO TAX REPORT 2024

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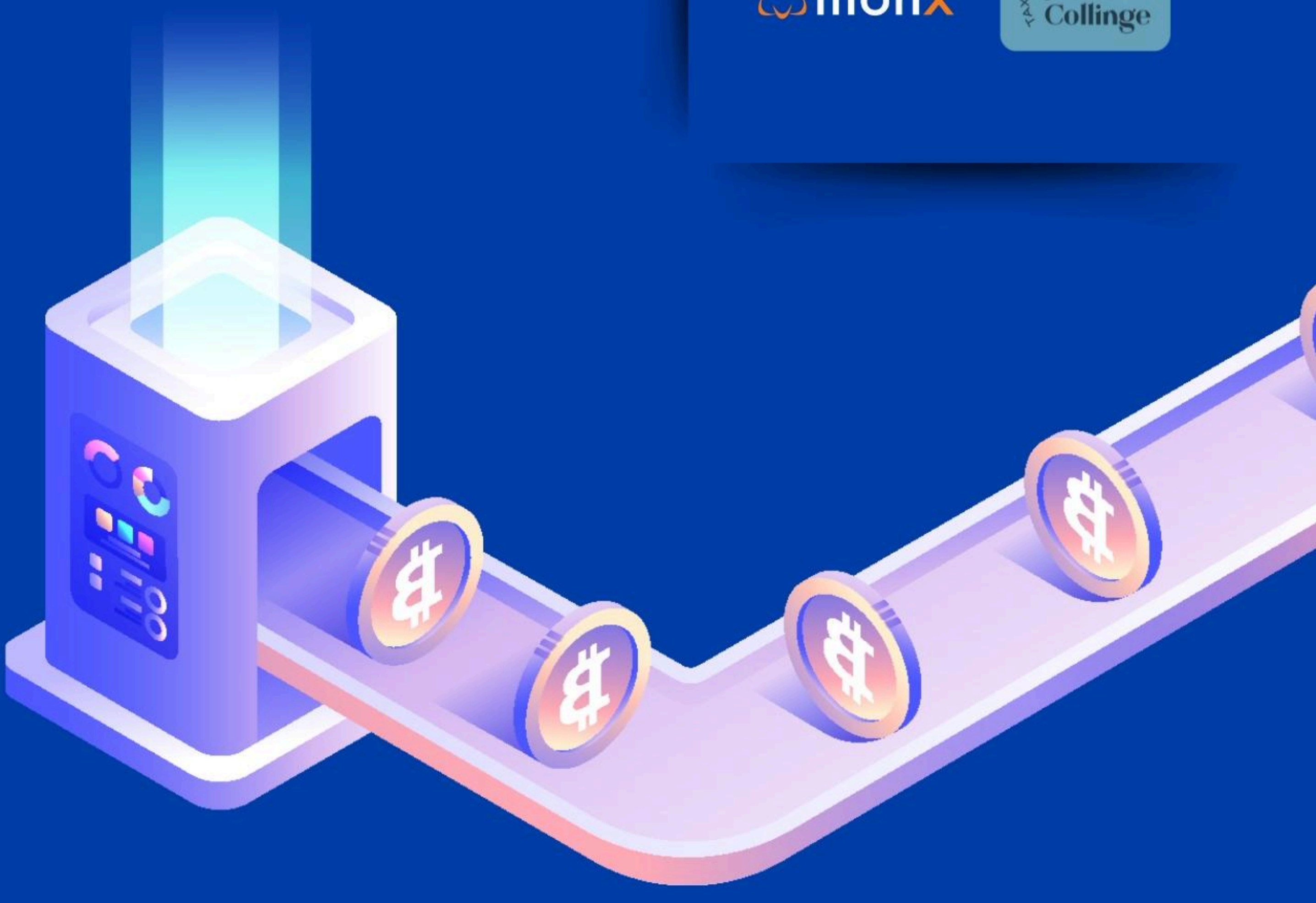

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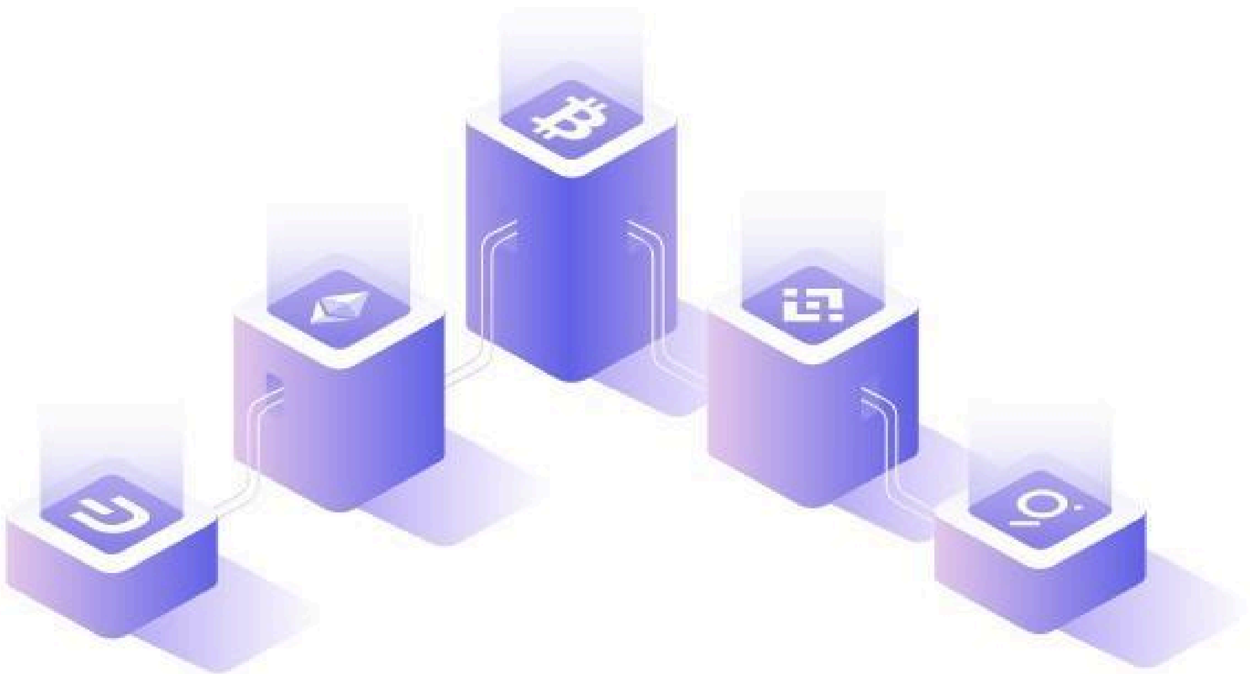

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Foreword from our founder

2024 has been a landmark year with Bitcoin reaching an all-time high (ATH), attracting increased scrutiny from tax regulators worldwide. Equipped with advanced technology and substantial budgets, regulators are now more educated and prepared than ever before.

From Dubai, Singapore, Hong Kong and Malta having tax incentives with no capital gain tax to the increase in tax regulatory pressure in Australia and US, this Global Crypto Tax Report covers ten jurisdictions and includes expert articles addressing key concerns for Web3 CFOs. This report provides key insights for navigating the evolving landscape of crypto taxation.

If you have any comments, do reach out to me at weixiang.chan@web3accountant.online

Disclosure

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Global Crypto Tax Landscape

Tax Report Across 10 Jurisdictions by 6 Professional Firms with deep local tax expertise

Singapore, Hong Kong, Dubai and Malta has tax incentives with no capital gain tax!!!

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Tax Report contributed by Professional Service Firm (colour)

Legend

💸 **Jurisdiction with tax incentive (Details in report)**

💰 **Jurisdiction with no capital gain tax**

Jurisdiction	Introduction **_Broad Overview_**
Australia	The choice of cost basis method significantly impacts the calculation of taxable gains or losses. Businesses should choose the method that aligns with their financial strategy and compliance requirements, ensuring consistent application and thorough documentation.
Dubai	Dubai actively facilitates the development of Web3 infrastructure and has implemented Visa policies aimed at attracting talented individuals. Web3 companies that set up operations in designated "Dubai Web3 Hubs" are eligible for a 0% corporate tax rate for the first 5 years of their existence.
Estonia	Estonia has achieved a lot on digital journey, and they are ranking first in developing digital public services and among the top European top 10 countries overall. In 2024, there have been changes in Estonian tax legislation, including those related to the taxation of cryptocurrency.
Hong Kong	Hong Kong has seen a growing amount of activity related to crypto-assets, including funds, initial coin offerings, exchanges and custodian services. There is also a package of tax incentives to high net worth private families to set up family offices in Hong Kong.
Malta	Malta does not impose withholding tax on dividends paid to non-residents, nor does it levy stamp duty on the transfer of crypto assets.. Long-term investors holding crypto assets for extended periods are exempt from capital gains tax
New Zealand	As New Zealand taxes income on a source basis this means a transitional resident who disposes of crypto assets offshore (that are not part of their business) will not be subject to tax in New Zealand. This can create tax planning opportunities for reducing income tax.
Poland	Poland is a popular destination for crypto startups and investors, thanks to its favorable regulations and supportive environment, with over 900,000 residents owning cryptocurrency. Majority of transactions - like trading crypto for crypto - are tax free in Poland.
Singapore	With 20 licensed holders and over 50 applicants in progress, Singapore continues to be a key financial center supporting the crypto industry's growth. In 2024, the approval of a $2 billion top-up for the financial sector development fund further demonstrates the government's commitment to the financial services industry.
United Kingdom	The government's efforts to position the UK as a crypto stronghold are evident, with initiatives aimed at enhancing transparency in crypto transactions. The new tax reforms could lead to more investors declaring taxable returns.
US	Within the US, cryptocurrency has become an increasingly prominent financial instrument. While not legal tender, cryptocurrency is widely used for investment purposes, online transactions, and even as a store of value. The IRS has taken a more aggressive stance against crypto tax evasion through high-profile enforcement actions.

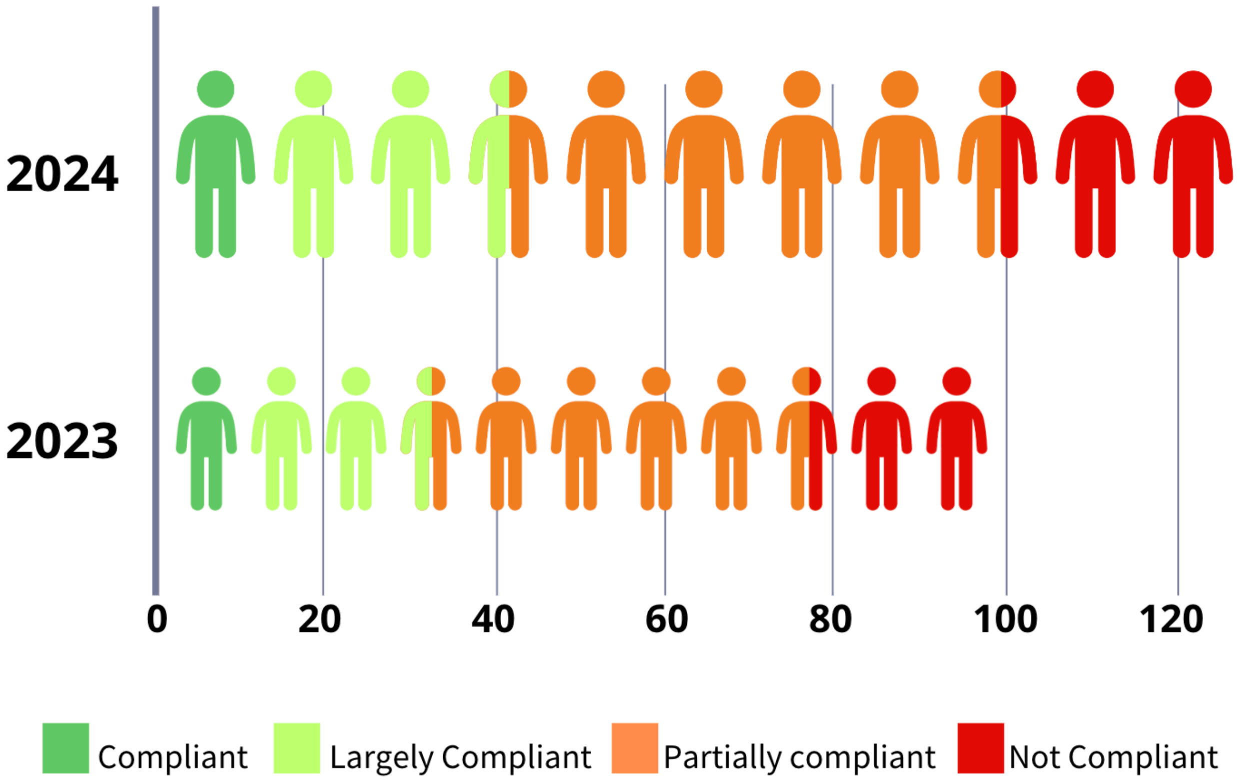
About Crypto Tax reporting

Crypto tax reporting is a pivotal step in enhancing the security and transparency of the virtual asset industry. However, its implementation presents significant challenges. Balancing regulatory compliance with privacy concerns, managing implementation costs, and ensuring global regulatory consistency are critical issues requiring ongoing attention and collaboration among regulators, industry participants, and technology providers.

Travel Rule

The VASP Travel Rule, an extension of the Financial Action Task Force's (FATF) Recommendation 16, mandates that VASPs collect and transmit sender and beneficiary information for transactions exceeding a certain threshold, typically $1,000 or its equivalent. This includes names, account numbers, physical addresses, and identification details, akin to traditional financial institutions' wire transfer requirements. The rule aims to curb money laundering and terrorist financing activities in the virtual asset space.

Number of Jurisdictions complying to FATF has increased by 20% annually



Source: TARGETED UPDATE ON IMPLEMENTATION OF THE FATF STANDARDS ON VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS

Who is VASP Travel Rule Affecting?

The FATF requires all jurisdictions to impose the Travel Rule on:

- Financial institutions, such as banks, that are engaged in VA transfers
- VASPs

According to the FATF, a company is considered a VASP if it provides the following services:

- Exchange between virtual assets and fiat currencies
- Exchange between one or more forms of virtual assets
- Transfer of virtual assets
- Safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets
- Participation in and provision of financial services related to an issuer’s offer and/or sale of a virtual asset

Under certain conditions, decentralized services (DeFi) and other P2P platforms may also be considered VASPs and are therefore obliged to comply with the FATF Travel Rule.

Crypto-Asset Reporting Framework (CARF) Summary

Who

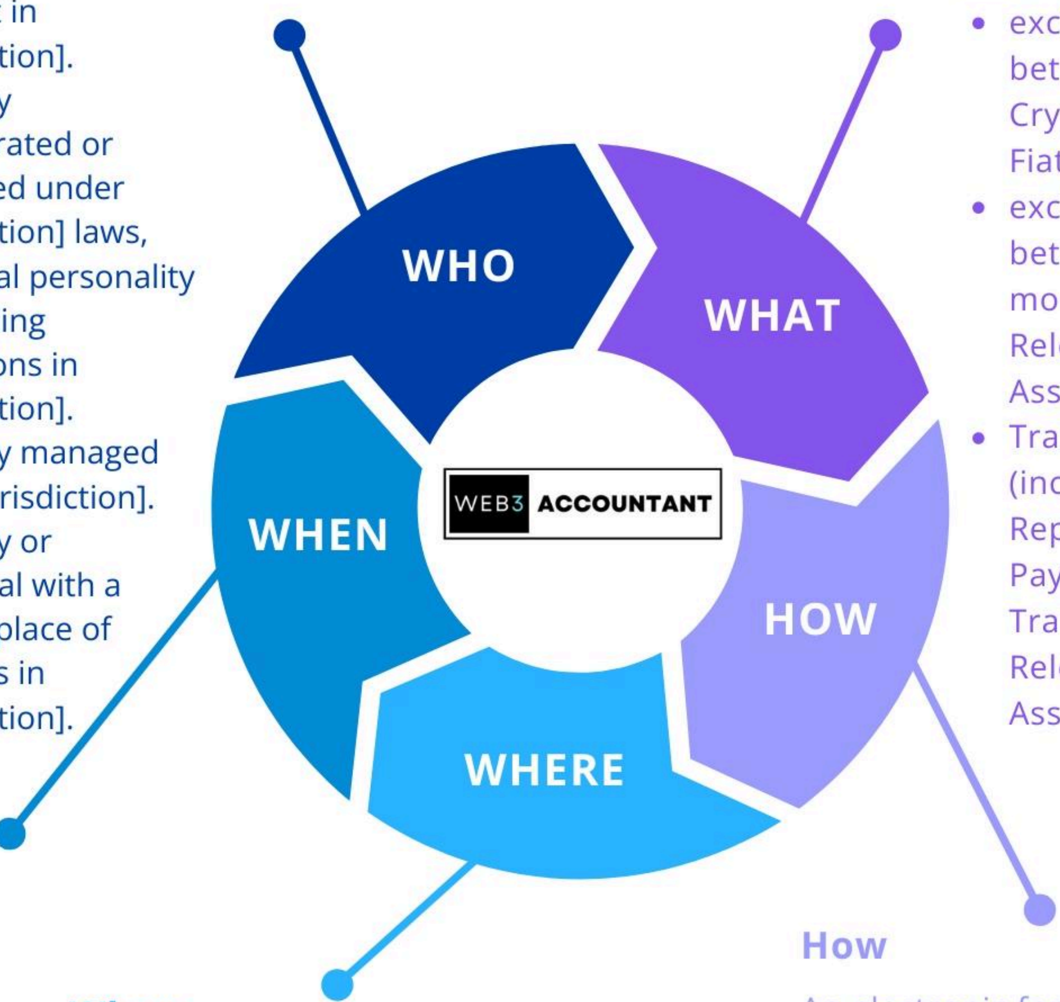
A Reporting Crypto-Asset Service Provider in [Jurisdiction] must comply with the reporting and due diligence requirements if they are:

1. An entity or individual tax resident in [Jurisdiction].
2. An entity incorporated or organized under [Jurisdiction] laws, with legal personality or tax filing obligations in [Jurisdiction].
3. An entity managed from [Jurisdiction].
4. An entity or individual with a regular place of business in [Jurisdiction].

What

Three types of transactions are Relevant Transactions that are reportable under the CARF:

- exchanges between Relevant Crypto-Assets and Fiat Currencies
- exchanges between one or more forms of Relevant Crypto-Assets; and
- Transfers (including Reportable Retail Payment Transactions) of Relevant Crypto-Assets.



When

By 2027

Where

48 jurisdictions including Singapore, Australia, United States, Malta, UK and Estonia agrees to implement CARF

How

An electronic format (XML schema) to be used to report CARF information to tax administrations for purposes of exchanging the CARF information

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Relevant Crypto-Assets: cryptographically secured distributed ledger technology that can be held and transferred in a decentralised manner, without the intervention of traditional financial intermediaries, including stablecoins, derivatives issued in the form of a Crypto-Asset and certain non-fungible tokens (NFTs). the definition of Relevant Crypto-Assets means that in most cases Relevant Crypto-Assets covered under the CARF also fall within the scope of the FATF Recommendations,

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Camuso CPA is a full-service CPA firm offering a full range of tax, accounting and advisory services to web3 businesses and digital asset investors.

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ElectraFi is a team of Chartered Tax Advisers, Public Accountants, and Bookkeepers dedicated to digital businesses, web3 startups, and organizations in the crypto economy seeking to upgrade their accounting systems.

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Finloo is a one-stop shop of top-tier accounting services for Web3 projects in different areas such as DAO, DeFi, NFT projects, gaming, and others in Web3.

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JC Tax provides tax consultancy services to both clients and accountants with a specialism in crypto asset and international taxation.

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Australia

Electra Frost

Electra Frost is a seasoned accountant and business adviser with over two decades in professional practice, specializing in crypto-native and web3 businesses. As a co-founder of the Digital Playhouse Foundation, she is dedicated to improving digital and financial literacy and leads the charity's Accountants On-Chain and CREDU projects.

ElectraFi

ElectraFi is a team of Chartered Tax Advisers, Public Accountants, and Bookkeepers dedicated to digital businesses, web3 startups, and organizations in the crypto economy seeking to upgrade their accounting systems. Led by Electra Frost since 2008, the practice specializes in Australian international tax, the creative and tech industries, and the digital economy, operating from Australian city locations and remotely. Notably, ElectraFi first integrated Bitcoin into financial statements in 2013. They manage financial operations, reporting, and compliance for select individuals and companies with comprehensive, year-round crypto accounting, business advisory, and tax services.

Australia Crypto Tax Guide 2024

Author: Electra Frost, Founder of Electrafi

Content

Introduction

This guide is intended to provide a high-level overview of the key aspects of the Australian tax treatment of cryptocurrency and digital asset transactions, including capital gains tax (CGT) and direct income tax implications, indirect tax events, transaction types, and record-keeping requirements. It is for general informational purposes only and should not be taken as tax advice.

Australia's Uncertain Crypto Tax Landscape

It's essential to note that Australia has not issued specific tax legislation for cryptocurrencies and digital assets, leaving taxpayers to interpret existing tax laws designed for traditional assets and to follow public rulings, practical compliance guidelines, and guidance from the Australian Taxation Office (ATO) website.

Since the initial bitcoin public rulings in 2014, the ATO has periodically updated its guidance to address the complexities of the evolving crypto economy. However, this guidance is non-binding and subject to change without formal notification, placing the onus on taxpayers and practitioners to stay informed. It is advisable to take "screenshots" of the guidance as evidence of what was relied upon at a certain point in time. The absence of dedicated crypto tax laws and the reliance on updated guidance underscores the challenges faced by those dealing with cryptocurrency transactions in Australia.

Additionally, the Board of Taxation conducted a comprehensive review into the tax treatment of digital assets and transactions in Australia, initiated in December 2021 and involving extensive consultations with stakeholders across various sectors. The Board submitted its report to the government on February 23, 2024. However, the report has not yet been made publicly available, leaving tax advisers without updated guidance.

The ongoing lack of publicly accessible recommendations and effective tax legislation continues to pose significant challenges for those applying Australia's complex tax landscape to cryptocurrency and digital asset activities, influencing some Australian web3 startups to consider relocating offshore.

Tax Treatment of Cryptocurrencies in Australia

Crypto Assets Recognised as Property, Not Money

In Australia, crypto assets are recognised as property for tax purposes. This means that they are treated similarly to other investment assets, such as shares or real estate. When crypto assets are acquired, held, or disposed of, these transactions are, in most cases, subject to capital gains tax (CGT) rules. Each crypto asset is considered a separate CGT asset, and any gains or losses from their disposal must be reported in an Australian tax resident's tax return.

However, when crypto assets are used in a business context, such as trading, mining, or providing services, they may be treated as ordinary income rather than capital gains. In these cases, the proceeds from selling or exchanging crypto assets are assessable as ordinary income, and the cost of acquiring them is a deductible expense

The Australian Taxation Office (ATO) has clarified that crypto assets are not considered a form of money, but rather a digital representation of value that can be transferred, stored, or traded electronically.

Capital Gains Tax (CGT) Events

A Capital Gains Tax (CGT) event occurs when a crypto asset is disposed of. This includes a variety of transactions such as selling the crypto asset, gifting it to another party, trading or exchanging it for another crypto asset or token, converting it to fiat currency (such as Australian dollars), or using the crypto asset to purchase goods or services. When a CGT event occurs, it may result in either a capital gain or a capital loss. These gains or losses must be accurately calculated and reported in the tax return of the Australian tax resident. Capital losses can be used to offset capital gains in the same financial year, and if there are excess losses, they can be carried forward to offset capital gains in future financial years.

Additionally, if the crypto asset has been held for at least 12 months before the CGT event, individuals may be eligible for a 50% CGT discount on the capital gain. However, capital losses cannot be offset against other types of income, such as salary or wages.

Valuing Crypto Assets

To determine a capital gain or loss, the value of crypto assets must be converted to Australian dollars (AUD) using the exchange rates from the Reserve Bank of Australia (RBA). This conversion is necessary at both the time of acquisition and disposal of the crypto assets. Accurate record-keeping is essential to track the value and details of each transaction, including the date of the transaction, the value in AUD at the time, the nature of the transaction, and the parties involved.

This meticulous documentation facilitates the accurate calculation of any tax assessable gains or losses, whether they are subject to Capital Gains Tax (CGT) or treated as ordinary income in a business context.

Crypto-to-Crypto Transactions

Exchanging one crypto asset for another is considered a disposal of the original asset and acquisition of a new one. The market value of the new asset at the time of the exchange determines the capital proceeds for the CGT event. If the new asset's value cannot be determined, use the market value of the disposed asset.

Non-Fungible Tokens (NFTs)

Non- Fungible Tokens (NFTs) are treated similarly to other crypto assets for tax purposes, with the specific tax treatment depending on the circumstances and purpose of holding the NFT. NFTs can be taxed as Capital Gains Tax (CGT) assets, trading stock, or business income.

The tax treatment of NFTs depends on various factors, such as:

- Investment: If the NFT is held as a long-term investment, any gains or losses from its disposal are subject to CGT.
- Trading Stock: If the NFT is part of a business's inventory, the proceeds from its sale are considered ordinary income.
- Business Use: If the NFT is received or used in relation to providing services or products, its value at the time of receipt is treated as business income.
- Personal Use: In rare cases, if the NFT is used for personal enjoyment, it may be considered a personal use asset and not subject to CGT

Additionally, specific Goods and Services Tax (GST) rules apply, particularly for electronic distribution platforms (EDPs) facilitating NFT sales for offshore sellers to Australian consumers.

Staking Rewards and Airdrops

Staking

Staking rewards in Australia are considered ordinary income at the time the tokens are received. The value of these additional tokens is considered “other income” for tax purposes. The cost base of the staking rewards is their market value at the time they are received. This applies to various consensus mechanisms, including proof of stake, proof of authority, and proxy staking.

Committing cryptocurrency to a staking smart contract does not trigger a CGT event. However, when new cryptocurrency is received at the end of the staking period, it is considered the acquisition of a new CGT asset, with a cost base equal to the market value of the original cryptocurrency at the time it was committed to the stake.

Airdrops

Airdropped tokens are treated as ordinary income at their fair market value when received. For initial allocation airdrops, the cost base is zero if received for free or the amount paid if there was a cost. If the airdropped tokens are later sold, CGT event occurs, and the cost base is the market value of the tokens at the time of receipt.

Transactions with Gift Cards or Debit Cards

Using crypto assets to acquire gift cards or load debit cards triggers a CGT event. The capital proceeds are the market value of the gift card or the amount by which the card balance increases. If the card is denominated in crypto, any gains or losses must be calculated based on the AUD value at the time of each transaction.

Prizes, Gambling Winnings, and Donations

Prizes and Gambling Winnings

Crypto assets won as prizes or through gambling are generally not considered ordinary income, but CGT applies upon disposal. The cost base is the market value at the time of winning.

Gifts and Donations

Donating or gifting crypto assets is considered a Capital Gains Tax (CGT) event. The market value of the crypto assets at the time of donation determines the capital proceeds for the CGT event. To claim a tax deduction for the donation, the recipient must be a Deductible Gift Recipient (DGR). Generally, tax is not payable on capital gains when donating crypto assets to DGRs if the gift is made under a will, under the Cultural Gifts Program, or if the crypto assets are personal use assets. Receiving crypto assets as a gift has no immediate CGT implications, but any subsequent disposal of the gifted crypto assets will trigger a CGT event, requiring the calculation and reporting of any capital gain or loss.

Loss or Theft of Crypto Assets

A capital loss can be claimed if crypto assets are lost or stolen, provided there is sufficient evidence of ownership and the loss. Required documentation includes the date of acquisition, date of loss, digital wallet address, cost of acquisition, value at the time of loss, control of the wallet, possession of hardware, and exchange transactions.

If the private key to the digital wallet is lost, making the crypto assets irretrievable, this qualifies as a loss. However, if the assets can be recovered, they are not considered lost. In cases where a crypto asset exchange or platform goes into administration, a capital loss can only be claimed once the administration process is finalised.

Record Keeping

Maintaining accurate records is crucial for compliance. Keep details of each crypto asset, including information on acquisition, disposal, transaction dates and values in AUD.

Additionally, any associated costs, such as transaction fees, legal expenses, and agent fees, should be documented. Records must be kept for at least five years after the relevant CGT event.

Additionally, if the records are used to support a tax assessment that is amended, they must be retained for the duration of the review period, which can extend beyond the initial five years.

Chain Splits

Chain splits result in the creation of new crypto assets. The value of new assets received from a chain split is not considered income at the time of receipt but is subject to CGT upon disposal.

It is crucial to identify which resulting asset continues the original asset and which is the new asset, as this affects tax treatment. If none of the post-split assets retain the same rights or relationships as the original, a CGT event occurs for the original asset, and each new asset is assigned a cost base of zero from the date of the chain split.

DeFi and Wrapping Tokens

DeFi Transactions

When crypto assets are deposited into a liquidity pool, a CGT event occurs. The capital proceeds from the CGT event are equal to the market value of the property received in return, which may be another crypto asset or a right. A CGT event also occurs when withdrawing crypto assets from the liquidity pool, and the capital proceeds are equal to the market value of the crypto assets withdrawn.

The tax treatment of DeFi Lending and Borrowing arrangement depends on whether beneficial ownership changes, with many resulting in a CGT event. This is because beneficial ownership of the relevant crypto asset typically ends due to the arrangement, either through exchanging one crypto asset for another or exchanging a crypto asset for a right to receive an equivalent number of the same crypto asset in the future. The capital proceeds for the CGT event are equal to the market value of the property received in return for transferring the crypto asset.

Periodic rewards in the form of crypto assets received from DeFi platforms must be reported as assessable income at their market value at the time of receipt. These rewards are taxed similarly to interest income.

Wrapped Tokens

Wrapping and unwrapping tokens through a smart contract are considered exchanges of one crypto asset for another, triggering a CGT event. The capital proceeds for the CGT event are equal to the market value of the wrapped token at the time of the exchange. The market value of the wrapped token at the time of the exchange determines the capital proceeds.

Cost Basis Methods for Crypto Taxation

The ATO provides specific guidelines for calculating the cost base of cryptocurrency transactions, for determining capital gains or losses. The primary methods recognised by the ATO include First-In, First-Out (FIFO) and Specific Identification However, the Last-In, First-Out (LIFO) and Weighted Average Cost (WAC) methods may also be acceptable. Consistency in the application of these methods and detailed record-keeping is mandatory to ensure compliance.

First-In, First-Out (FIFO)

FIFO assumes that the first assets acquired are the first to be disposed of. This method is straightforward and commonly used in accounting practices. For example, if a business acquires 1 Bitcoin in January, 2 in February, and sells 1 Bitcoin in March, the cost base for the sale would be the cost of the Bitcoin acquired in January. This method simplifies tracking but may not always be tax-efficient, especially in a volatile market where asset prices fluctuate significantly.

Specific Identification

The Specific Identification method allows businesses to select which specific assets are sold, provided they can accurately identify and track each unit's acquisition details and costs. This method requires meticulous record-keeping as each unit's purchase price, acquisition date, and any associated fees must be documented. For example, if a business has 1 Bitcoin bought at $10,000 and another bought at $15,000, and it sells 1 Bitcoin, it can choose which Bitcoin to sell based on its cost base. This flexibility can help in tax planning, allowing the selection of units with higher costs to minimise taxable gains. However, for financial reporting purposes, it may not be appropriate.

Last-In, First-Out (LIFO)

LIFO assumes that the last assets acquired are the first to be disposed of. This method is less common and not explicitly detailed by the ATO but is sometimes used by taxpayers. Using the earlier example, if a business acquires 1 Bitcoin in January and 2 in February, then sells 1 Bitcoin in March, the cost base for the sale would be the cost of one of the Bitcoins acquired in February. LIFO can be beneficial in periods of rising prices, as it matches higher cost assets against revenues, potentially reducing taxable income. However, it requires detailed justification and consistent application.

Weighted Average Cost (WAC)

The Weighted Average Cost (WAC) method can be applied in two ways: the per-transaction method and the entire-year-of-income method. The per-transaction method involves calculating the weighted average cost for each transaction, making it ideal for businesses with frequent trades. The entire-year-of-income method averages the costs over the entire year, which may be more suitable for businesses with stable holdings. For example, if a business buys Bitcoin at different prices throughout the year, WAC calculates the average cost of all units, providing a single cost basis for any sales made during that period. This can be an appropriate method for operational crypto and digital assets that are subject to trading stock rules.

Documenting the Choice

Businesses are advised to document their chosen cost basis method. This documentation does not need to be lodged with the ATO but should be retained as part of business records. The documentation should include the method elected, the date of the election, and the specific assets it applies to. For instance:

We, Crypto Business Pty Ltd, choose to use a weighted average basis for our crypto assets starting today:

Crypto Asset	Wallet Address	Exchange Platform
Bitcoin (BTC)	1A1zP1eP5QGefi2DMPTfTL5SLmv7DivfNa	XYZ Exchange
Ethereum (ETH)	0x32Be343B94f860124dC4fEe278FDCBD38C102D88	ABC Exchange

Crypto Business Pty Ltd

19 January 2024

Such documentation can provide clarity and substantiation in the event of an audit.

Classifying Gas Fees

Gas fees are classified based on the purpose of the crypto asset. For assets held as long-term investments, gas fees should be included in the cost base for CGT purposes. For assets used in the ordinary course of business, gas fees are treated as deductible expenses. Detailed records of all transactions, including gas fees, acquisition dates, and amounts, are essential for accurate tax reporting.

Conclusion

The choice of cost basis method significantly impacts the calculation of taxable gains or losses. Businesses should choose the method that aligns with their financial strategy and compliance requirements, ensuring consistent application and thorough documentation. ElectraFi assists clients in navigating these complexities by providing tailored solutions and strategic configurations of subledger and tax software.

The tax treatment of crypto assets in Australia continues to evolve as the market matures, reach out to Electrafi at info@electrafi.finance to find out more!

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Dubai

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Stefano Passarello

Stefano Passarello is a multifaceted entrepreneur, financier, and innovation mentor based in Hong Kong, He founded StartIT Asia in 2017, an innovative program organized by the Italian Consulate General in Hong Kong. Stefano has also achieved remarkable athletic feats, including holding the Standard Chartered Marathon record in Hong Kong and breaking the AG world record in the marathon split at the Ironman World Championship. In 2021, Stefano founded Monx, an ambitious accounting firm that quickly expanded to offices across Asia, Europe, the Middle East, and North America.

Monx

Monx is a global tax, accounting, and corporate services and cyber security services firm at the forefront of professional service providers. Monx supports fast-growing companies and entrepreneurs with ultra-personalised, time-effective, and tech-enabled services. Their mission is to provide unparalleled support to businesses of all sizes and help them navigate the complexities of the global economy. With Monx, you can count on reliable, expert advice and a team of experienced professionals dedicated to your success.

Dubai Crypto Tax Guide 2024

Author: Stefano Passarello, CVO at Monx

Overview

1. Dubai has no Capital Gain Tax and has a crypto-friendly regulation
2. The Dubai government shows a significantly higher acceptance of cryptocurrency policies compared to Singapore, Europe, and the United States with relevant policies and a well-defined regulatory framework.

Due to friendly tax policies and clear regulation, Dubai has grown into a hotspot for cryptocurrency investors leading many crypto companies and crypto investors to move to Dubai in recent years. Moreover, the government actively facilitates the development of Web3 infrastructure and has implemented Visa policies aimed at attracting talented individuals.

Content

What is a digital payment token in Dubai?

A digital payment token is a type of cryptocurrency or virtual asset that is regulated under the country's cryptocurrency and digital asset framework. It is defined as a virtual asset that is used as a medium of exchange and a store of value and it is typically secured using cryptography and operates on a distributed ledger technology (DLT) such as blockchain.

1. Digital payment tokens are classified as a type of "Virtual Asset" under the UAE's regulatory framework.

2. The regulation of digital payment tokens falls under the purview of the UAE's Virtual Asset Regulatory Authority (VARA).

3. Digital payment tokens can be used for various purposes, including making payments, transferring funds, and storing value.

4. They can be used for both retail and commercial transactions within the UAE and potentially for cross-border payments.

5. Entities offering services related to digital payment tokens, such as exchanges or custodians, are required to obtain a license from VARA.

6. These licensed entities must comply with various regulatory requirements, including know-your-customer (KYC) procedures, anti-money laundering (AML) measures, and consumer protection standards.

7. The UAE does not currently have a personal income tax or capital gains tax on cryptocurrency transactions, including digital payment tokens.

Dubai’s Virtual Assets Regulatory Authority (VARA), has issued its Virtual Assets and Related Activities Regulations 2023. The Regulations set out a comprehensive Virtual Assets (VA) Framework built on principles of economic sustainability and cross-border financial security.

VARA aims to position Dubai as a regional and international hub for Virtual Assets and related services and to develop a digital economy in the city to boost its competitive edge locally and internationally.

In January 2022, the global cryptocurrency market was valued at around $800 billion, growing to $1.2 trillion by the end of Q1 2023. Considering the peak market cap of $2.9 trillion in 2021, the market is expected to continue to expand and develop, creating vast opportunities.

What are the tax incentives provided by the government this year for Web3 Businesses and Individuals?

Impact on Web3 Businesses

In 2023, the Dubai government has introduced several tax incentives to promote the growth of Web3 businesses and attract individual investors and entrepreneurs to the emirate. The main incentives are summarized in the below key points:

Corporate Tax Exemptions:

Web3 companies that set up operations in designated "Dubai Web3 Hubs" are eligible for a 0% corporate tax rate for the first 5 years of their existence. This applies to businesses focused on blockchain, cryptocurrencies, NFTs, metaverse, and other Web3 technologies.

Personal Income Tax Exemptions:

Individuals working for Web3 companies in Dubai are exempt from paying personal income tax. This helps attract top talent in the Web3 space to the emirate.

Capital Gains Tax Exemptions:

Profits and capital gains from investments in cryptocurrencies, NFTs, and other Web3 digital assets are exempt from capital gains tax in Dubai, which makes Dubai an attractive destination for Web3 investors and traders.

Free Zones and Regulatory Sandbox:

Dubai has established dedicated Web3 free zones, such as the Dubai Blockchain Free Zone, which offer 100% foreign ownership, no corporate tax, and streamlined regulatory frameworks.
The Dubai Financial Services Authority (DFSA) also operates a regulatory sandbox for Web3 startups to test their products and services in a controlled environment.

Financial Incentives:

The Dubai government provides financial grants and subsidies to support the establishment and growth of Web3 companies in the emirate; this includes funding for research and development, talent acquisition, and infrastructure development.

What are the crypto tax rates in Dubai?

Dubai’s 0% capital gains tax can help wealthy investors save significant portions of their profits. However, this tax rate applies to Dubai residents only. To be considered a tax resident, you are required to spend at least 183 days of the year in Dubai (either a continuous stay or multiple visits).

Moreover, the following requirements must be met:

1. Permanent Abode: Maintain a permanent residence or living quarters in Dubai that is available for the individual's use throughout the year. This could be an owned or rented property.

2. Center of Vital Interests: Dubai must be the center of personal and economic interests. This can be demonstrated through factors such as employment, business activities, family ties, and social engagements in Dubai.
3. Intention to Reside: Have the intention to reside in Dubai on a long-term or permanent basis, rather than just for a temporary or short-term stay.

Web3 Businesses

The Web3 landscape in Dubai is rapidly evolving. Some relevant factors to consider are:

Regulatory Landscape:

Dubai has been proactive in establishing a regulatory framework to support the development of Web3 and blockchain technologies.
The Dubai Financial Services Authority (DFSA) has introduced regulations for digital assets, including cryptocurrencies and security tokens. The Dubai government has also established the Dubai Blockchain Strategy to position the emirate as a global hub for blockchain innovation.

Adoption and Innovation:

Dubai has attracted a growing number of Web3 and blockchain startups, attracted by the favorable regulatory environment and government support. Major corporations and government entities in Dubai have been exploring and implementing Web3 applications, such as in areas like digital identity, supply chain management, and real estate. The Dubai World Trade Centre (DWTC) has been established as a hub for Web3 and crypto-related events and conferences.

Talent and Education:

Dubai is actively investing in developing Web3 and blockchain-related talent, with universities and institutions offering relevant educational programs and courses. The Dubai Future Academy and other initiatives are providing training and upskilling opportunities in Web3 technologies.

Infrastructure and Ecosystem:

Dubai has been building the necessary infrastructure to support Web3 development, including robust internet connectivity, data centers, and cloud computing services. The emirate is also home to various Web3-focused accelerators, incubators, and venture capital funds that are supporting the growth of the local ecosystem.

Adoption by Government and Public Sector:

The Dubai government has been at the forefront of Web3 adoption, with various government entities exploring the use of blockchain and other Web3 technologies in their operations. Dubai has also been promoting the use of Web3 in areas like smart city development, e-government services, and the Dubai Metaverse Strategy.

How is crypto taxed in Dubai?

Cryptocurrency taxation in Dubai is governed by the tax laws and regulations of the United Arab Emirates (UAE), of which Dubai is a part. Some relevant factors about how crypto is taxed in Dubai are listed below:

1. No Personal Income Tax: The UAE, including Dubai, does not currently impose a personal income tax. This means that individuals are not required to pay tax on their personal income, including any gains from cryptocurrency investments.

2. Corporate Tax: The UAE introduced a federal corporate tax, which came into effect in June 2023. This corporate tax applies to both businesses and companies operating in the UAE, including those dealing with cryptocurrencies. The corporate tax rate is set at 9% for taxable income exceeding AED 375,000 (approximately USD 102,000).

3. Value-Added Tax (VAT): The UAE has implemented a 5% value-added tax (VAT) on the supply of goods and services, including those related to cryptocurrencies, thus businesses engaged in cryptocurrency-related activities, such as exchanges, trading, or providing crypto-related services, may be subject to the 5% VAT.

4. Capital Gains Tax: The UAE does not currently have a capital gains tax. This means that any gains from the sale or exchange of cryptocurrencies are not subject to taxation.

5. Free Zones: Dubai has established various free zones, such as the Dubai International Financial Centre (DIFC) and the Abu Dhabi Global Market (ADGM), which have their own set of tax regulations. Businesses operating within these free zones may have different tax treatment, including potential exemptions or special arrangements for cryptocurrency-related activities.

When is the deadline for crypto tax in Dubai?

There is no specific deadline for crypto tax filing in Dubai, as the emirate does not currently have any personal income tax or capital gains tax on cryptocurrency transactions. However, there are a few important deadlines to be aware of:

1. Corporate Tax: the UAE has introduced a federal corporate tax that has come into effect in June 2023. Businesses, including those dealing with cryptocurrencies, will be required to file their corporate tax returns and make the necessary tax payments by the deadlines set by the UAE's Federal Tax Authority (FTA). The specific deadlines for corporate tax filings and payments will depend on the financial year-end of the company and the FTA's guidelines.

2. Value-Added Tax (VAT): Businesses engaged in cryptocurrency-related activities, such as exchanges or crypto-asset services, may be required to register for and file VAT returns in the UAE, whose filing deadlines are typically on a quarterly basis, with payments due within 28 days after the end of each quarter.

3. Free Zone Regulations: Businesses operating in Dubai's free zones, such as the DIFC or ADGM, may have different tax filing deadlines and requirements that should be reviewed and complied with.

Should Web3 Businesses register for VARA License?

Any company or individual offering virtual asset-related products or services in or from Dubai is required to obtain a VARA license. Obtaining a VARA license is a crucial step for Web3 companies that want to legally operate and offer their services in the Dubai market. The VARA licensing process involves a thorough application review and approval by the regulatory authority.This licensing requirement applies to a wide range of Web3 businesses, such as cryptocurrency exchanges, custodians, NFT marketplaces and DeFi protocols. The VARA license has specific compliance and operational requirements that Web3 businesses need to meet, including capital requirements, security standards, and consumer protection measures.

How about withholding tax and stamp duty?

Dubai and the wider United Arab Emirates do not currently impose any withholding tax on payments made to non-resident individuals or companies. This means that Web3 businesses operating in Dubai are not required to withhold any taxes on payments or transactions made to international partners, service providers, or customers.

As per the stamp duty, Dubai imposes stamp duty on certain legal and commercial documents, such as contracts, agreements, and property transactions. Its rate is typically between 0.05% to 0.375% of the contract value, depending on the type of document. For Web3 businesses, the main stamp duty consideration would be around any contracts or agreements they enter into, either with local partners or international entities and Web3 companies should ensure that any relevant contracts or agreements are properly stamped to comply with the local regulations and avoid potential penalties.

Lastly, it's worth noting that the UAE, including Dubai, is continuously updating its tax and regulatory framework to keep pace with the evolving digital economy, including the Web3 space. Web3 businesses are advised to work closely with local tax and legal experts to stay informed of the latest developments and ensure full compliance.

Sources:

https://coinledger.io/guides/dubai-crypto-tax#:~:text=Tax%20Benefits%3A%20Dubai%20offers%20significant,staking%2C%20and%20mining%20for%20individuals

https://freemanlaw.com/cryptocurrency/united-arab-emirates/

https://www.vara.ae/en/

The tax treatment of crypto assets in Dubai continues to evolve as the market matures, reach out to Monx at hello@monx.team to find out more!

Contact: stefano@monx.team

Estonia

Roxy

Web3 Finance Expert/ Co-founder & CEO Finloo/WoWG #6049/ Member at WTECH, Web3Finance Club
More than 11 years of experience in finance, accounting, and bookkeeping.

Finloo

One-stop shop of top-tier accounting services for Web3 projects in different areas such as DAO, DeFi, NFT projects, gaming, and others in Web3.
What was done:

- Incorporated and successfully supported 20+ companies in Hong Kong.
- Reconciled 10k+ blockchain transactions as well as 40k+ bank accounts and credit cards transactions.
- Prepared and delivered financial statements for over 20 companies ensuring accurate reflection of both fiat and crypto transactions.

Estonia Crypto Tax Guide 2024

Author: Roxy, Co-founder & CEO at Finloo
Estonia is one of the hotspots for crypto companies in Europe and the popularity of cryptocurrency fits with Estonia's image as a tech success story. The growth in this sector is remarkable and investor´s interest in any blockchain-related solutions is high.

Although Estonia has recently increased the fees for crypto licenses, it has the potential to remain a favourable jurisdiction for development-oriented crypto companies from low corporate taxes and over 60 international double taxation elimination agreements that can allow your crypto business to protect your income from taxation in two different countries.

Overview

- What is a digital payment token in Estonia?
- Web3 for Businesses and Individuals
- What are the crypto tax rates in Estonia?
- How is crypto taxed in Estonia?
- When is the deadline for crypto taxes in Estonia?
- Should Web3 Businesses register for VAT in Estonia?
- What are the types of crypto licensing in Estonia?

What is a digital payment token in Estonia?

Under Estonian law "virtual currency" means a value represented in digital form, which is digitally transferable, preservable or tradable and which natural persons or legal persons accept as a payment instrument, but that is not the legal tender of any country or funds for the purposes of Article 4(25) of Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market or a payment transaction for the purposes of points (k) and (l) of Article 3 of the same Directive.

The term "cryptocurrency" refers to the exchange currency used, for example, for the sale / purchase of goods or services, as well as for investments aimed at maintaining or increasing the value of cryptocurrency. Cryptocurrency includes, for example, Bitcoin, Ether, Litecoin, etc.

Web3 for Businesses and Individuals.

Natural persons must declare the income from trading in cryptocurrency, as well as the income from the conversion of cryptocurrency into regular (fiat) currency, the exchange of cryptocurrency into another cryptocurrency, or payment with cryptocurrency for goods or services. Income from cryptocurrency mining is considered the business income of a natural person.

For individuals engaged in the development of cryptocurrency, income from this activity is considered entrepreneurial income. Such individuals must register with the commercial register and act as sole proprietors (FIE) or through a business entity. Importantly, expenses related to the generation of income from cryptocurrency development cannot be deducted by individual entrepreneurs.

If a private individual mines cryptocurrency, the income must be declared as business income. A person permanently engaged in virtual currency extraction must be registered in the commercial register and operate as a sole proprietor or a company. It is possible to invest in cryptocurrencies under the company, in which case the company's tax rules must be followed.

What are the crypto tax rates in Estonia?

In Estonia, cryptocurrency income is considered gains from the transfer of property and is subject to a 20% income tax rate. All profitable transactions must be declared regardless of the amount of profit incurred.

Estonia's tax system is controlled and administered by the Estonian Tax and Customs Board (ETCB), which currently does not impose any cryptocurrency-specific taxes, which means that Estonian crypto companies are subject to existing regulations.

Crypto companies in Estonia are obliged to pay taxes for such activities as:

- Converting cryptocurrencies into Fiat Money and Vice Versa
- Cryptocurrency Exchange for Other Cryptocurrencies
- Using cryptocurrencies to pay for goods or services

Depending on the legal structure and activities of a crypto company, the following taxes might be levied:

- Corporate Income Tax (CIT) – 0%-20%

- Social Tax (ST) – 33%
- Value Added Tax (VAT) – 20%
- Withholding Tax (WHT) – 7%-20%

How is crypto taxed in Estonia?

Income received in cryptocurrency (gains from the transfer of property, income from employment, business income) is taxed on a similar basis as income received in traditional currency.

As regards the taxation of virtual income, the purchase or sales price or received income has to be converted into euros at the exchange rate of cryptocurrency (market price) applying on the date of receipt of the income or costs.

In 2024, there have been changes in Estonian tax legislation, including those related to the taxation of cryptocurrency. It is important to note that converting income that is already taxable (e.g., salary received in cryptocurrency) into regular currency or using it to purchase goods and services does not entail additional tax liabilities. That is, if tax has already been paid on income received in cryptocurrency, no additional taxation applies when it is used.

In 2024, platforms and payment intermediaries are obliged to provide information on user income to the Estonian Tax and Customs Board. This applies to trading platforms, rented real estate, services provided, sale of goods and rental of vehicles

When is the deadline for crypto taxes in Estonia?

The tax period for any Estonian company is one month, and you have to file your tax returns (expenses, revenues, payments, and tax liability circumstances) by the 10th of each calendar month.

Each April, you will have to declare your income from transactions that occurred in the previous calendar year.

- 15 February each year - Online tax portal opens, and you can start declaring your taxes.
- 30 April each year - Last day to submit your taxes

Should Web3 Businesses register for VAT in Estonia?

According to the ruling of the European Court of Justice, cryptocurrencies are exempt from VAT.

What are the types of crypto licensing in Estonia?

In Estonia, the regulation of cryptocurrency businesses is well-defined and structured. As of 2024, there are two distinct types of licenses available for Virtual Asset Service Providers (VASPs):

Cryptocurrency Exchange Services License

This license allows companies to offer services that involve exchanging virtual currencies for fiat currencies, or exchanging one virtual currency for another. Key points include:

Scope of Services

- Exchange between virtual currencies and fiat currencies.
- Exchange between different virtual currencies.

Requirements

- A company must be registered in Estonia.
- A minimum share capital of 100,000 EUR.
- At least one board member must be a resident of Estonia.
- Implementation of robust AML (Anti-Money Laundering) and KYC (Know Your Customer) procedures.
- Appointment of an AML officer.

Crypto Wallet Custodial Services License

With this crypto licensed companies in Estonia can provide services related to keeping, storing and transferring crypto currencies. This involves generating and storing cryptographic keys used for customers to manage and store their virtual currencies. Key points include:

Scope of Services

- Custody and management of virtual currency wallets.
- Safekeeping of customers' cryptographic keys.

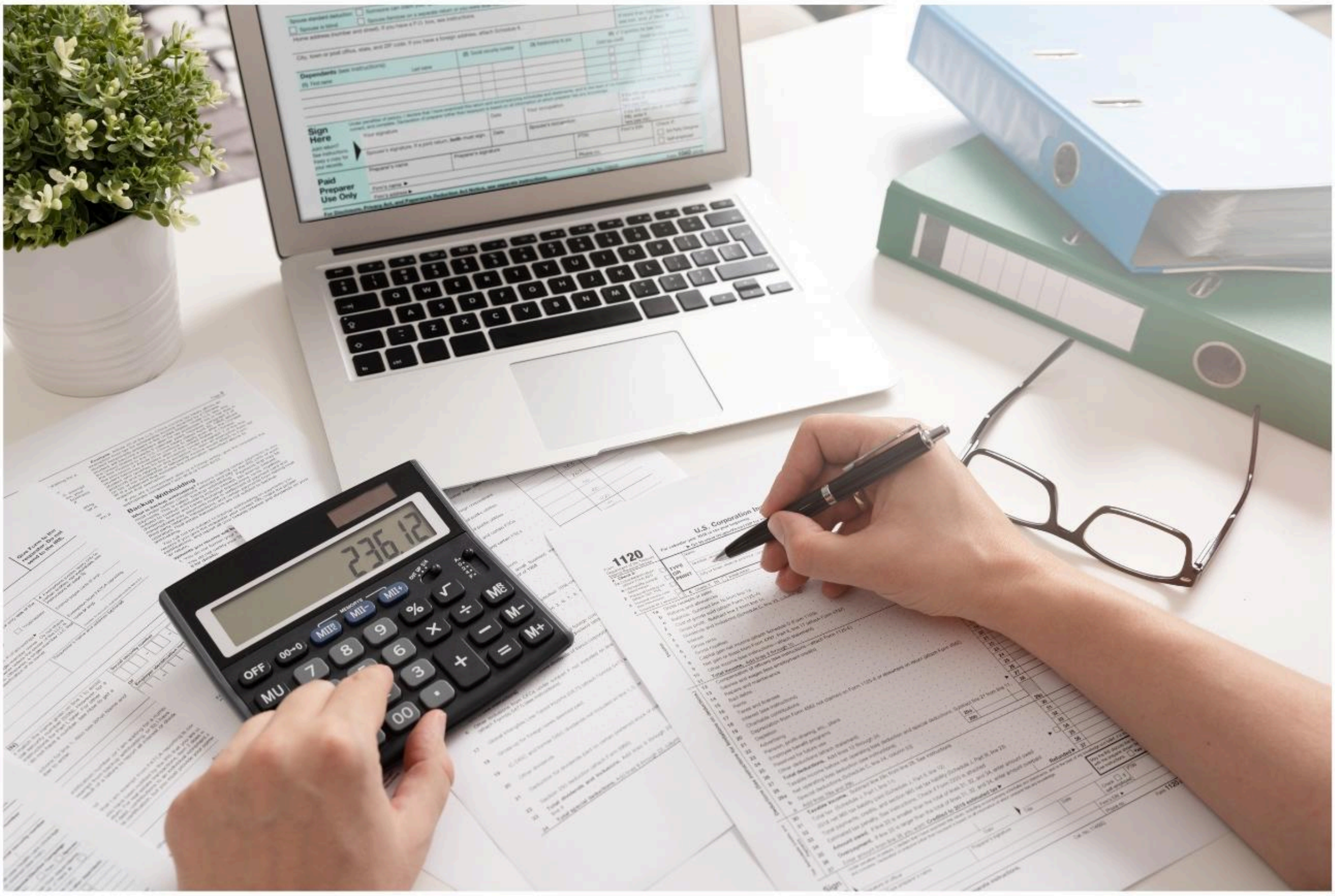
Requirements

- A company must be registered in Estonia.
- A minimum share capital of 250,000 EUR.
- At least one board member must be a resident of Estonia.
- Implementation of robust AML and KYC procedures.
- Appointment of an AML officer.

Estonia has achieved a lot on digital journey, and they are ranking first in developing digital public services and among the top European top 10 countries overall. Estonia is rightfully known as the most advanced digital society in the world.

The tax treatment of crypto assets in Estonia continues to evolve as the market matures, reach out to Finloo at hello@finloo.io to find out more!

Contact: roksolana@finloo.io



Hong Kong

monx

Accounting | Tax | Corporate Services

Stefano Passarello

Stefano Passarello is a multifaceted entrepreneur, financier, and innovation mentor based in Hong Kong, He founded StartIT Asia in 2017, an innovative program organized by the Italian Consulate General in Hong Kong. Stefano has also achieved remarkable athletic feats, including holding the Standard Chartered Marathon record in Hong Kong and breaking the AG world record in the marathon split at the Ironman World Championship. In 2021, Stefano founded Monx, an ambitious accounting firm that quickly expanded to offices across Asia, Europe, the Middle East, and North America.

Monx

Monx is a global tax, accounting, and corporate services and cyber security services firm at the forefront of professional service providers. Monx supports fast-growing companies and entrepreneurs with ultra-personalised, time-effective, and tech-enabled services. Their mission is to provide unparalleled support to businesses of all sizes and help them navigate the complexities of the global economy. With Monx, you can count on reliable, expert advice and a team of experienced professionals dedicated to your success.

Hong Kong Crypto Tax Guide 2024

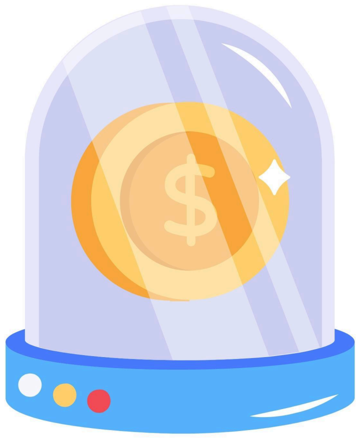
Author: Stefano Passarello, CVO at Monx

Overview

There is no universal definition of digital asset, however according to Hong Kong Institute of Certified Public Accountants "Crypto-assets are digital assets that are stored on distributed ledgers that utilize cryptography for security, while the Inland Revenue Department of Hong Kong defines it as "digital representations of value that can be transferred, stored or traded electronically. They may be backed by physical assets or guaranteed by the government, and they may have no intrinsic value depending on the exact nature of the token".

One of the most commonly known subsets of crypto-assets is cryptocurrencies. The market for crypto-assets is fast evolving. Over the past few years, Hong Kong has seen a growing amount of activity related to crypto-assets, including funds, initial coin offerings, exchanges and custodian services.

Content



What is a digital payment token in Hong Kong?

The Inland Revenue Department classify "Digital Assets" in three categories of tokens:

PAYMENT TOKENS:

They are means of payment for goods or services and encompass cryptocurrencies like Bitcoin. Such tokens are not legal tender in Hong Kong but are regarded as virtual commodities.

SECURITY TOKENS:

They are tokens that represent ownership interests, a debt or entitlement of share of profits in a business. They are regulated in Hong Kong by the Securities and Futures Ordinance (SFO).

UTILITY TOKENS:

They are tokens that provide the holder with access to goods or services.

What is the regulatory framework in Hong Kong?

Although Hong Kong does not have any targeted regulatory framework on Crypto Assets, the Securities and Futures Commission (SFC) starting from 2017 has been regulating the ecosystem around the "security" tokens and imposing licensing requiring for crypto players such as trading platforms and "virtual asset" portfolio managers and funds. Furthermore, existing laws provide sanctions against money laundering, terrorist financing, fraud and cyber-crimes, whether or not "virtual commodities" are involved. For more details, please refer to this link.

The tax treatment of " Digital Assets" is regulated by a document called "Profit's tax - Digital Economy, Electronic Commerce and Digital Assets" DIPN 39.

- The general principle is that the tax treatment of digital tokens would depend on their nature and use.
- The DIPN 39 provides a definition of Nature of Digital Assets as: digital representation of value, transferred, stored or traded electronically, may not be backed by physical assets or guaranteed by Government, may have no intrinsic value, short-term and volatile by nature.

Just like regular limited companies in Hong Kong, cryptocurrency businesses are required to keep proper business records in relation to their cryptocurrency transactions in accordance with section 51C.

What are the crypto tax rates in Hong Kong?

For businesses, profits from trading in cryptocurrencies are considered part of the normal business income and are subject to the standard corporate income tax rate of 16.5%. Income received in cryptocurrencies for goods and services are subject to the same standard corporate income tax or salary tax as traditional taxes.

There is no goods and services tax (GST) or value-added tax (VAT) applied to cryptocurrency transactions in Hong Kong.

For individuals, any profits from the sale of cryptocurrencies are generally considered capital gains and are not subject to income tax, since Hong Kong does not have a capital gains tax.

How is crypto taxed in Hong Kong?

Profits arising from the sale of capital assets are excluded from the charge of profits tax. If digital assets are bought for long-term investment purposes, any profits from disposal would not be chargeable to profits tax. Whether the digital assets are capital assets or trading stock has to be considered on the basis of the facts and circumstances. Well-established tax principles like the "badges of trade" would continue to be applicable and the intention at the time of acquisition of the digital assets is always relevant to decide whether they are capital assets or trading stock.

Common business activities involving cryptocurrency include:

1. trading of cryptocurrency;
2. exchange of cryptocurrency;
3. and mining.

Hong Kong sourced profits from cryptocurrency business activities are chargeable to profits tax. In deciding the source of profits, it is necessary to ascertain the nature of the profits in question, the person's relevant operations that produced the profits in question and the place where those profit-generating operations were carried out.

The question whether the buying and selling of cryptocurrency, exchange of cryptocurrency or mining of cryptocurrency amounts to the carrying on of a trade or business is a matter of fact and degree to be determined upon a consideration of all the circumstances. Factors such as the degree and frequency of the activity, the level of system or organisation (i.e. whether the activity is undertaken in a business-like manner) and whether the activity is done for the purpose of making a profit are relevant consideration.

When is the deadline for crypto tax in Hong Kong?

There are no separate deadlines specifically for crypto companies in Hong Kong, thus they are subject to the same timeline as all other limited companies. For companies closing their Financial year on 31st December, the deadline to submit the Profits Tax Return is 15th August; for companies closing their Financial year on 31st March, the deadline to submit the Profits Tax Return is 15th November.

<table>
<tr><th>Financial Year End</th><th>Profit Tax Return Filing Deadline</th><th>Tax Payment Deadline</th></tr>
<tr><td>31st December</td><td>15th August (of the following year)</td><td rowspan="4">Deadline to pay taxes are stated on the Tax Assessment issued by the Inland Revenue Department folling the filing of the PTR. Exact is date is dependent on when the TaX Assessment is issued.</td></tr>
<tr><td>31st March</td><td>15th November (of the same year)</td></tr>
<tr><td>30th June</td><td>30th April (of the following year)</td></tr>
<tr><td colspan="2">*The above deadlines are for companies that are not closing their first financial year. For companies closing their first ever financial year the first deadline is 21months after date of incorporation.</td></tr>
</table>

What are the Tax Incentives in Hong Kong?

For the Financial Year 2023/2024 the Hong Kong government has introduced a 100% reduction on taxes capped at HKD 3,000, which means that the tax payable until this sum is waived.

There is also a package of tax incentives to high net worth private families to set up family offices in Hong Kong.

How about withholding tax and stamp duty?

No stamp duty is levied on the transfer of cryptocurrencies.

The tax treatment of crypto assets in Hong Kong continues to evolve as the market matures, reach out to Monx at hello@monx.team to find out more!

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Malta

Finloo

Roxy

Web3 Finance Expert/ Co-founder & CEO Finloo/WoWG #6049/ Member at WTECH, Web3Finance Club
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- Prepared and delivered financial statements for over 20 companies ensuring accurate reflection of both fiat and crypto transactions.

Malta Crypto Tax Guide 2024

Author: Roxy, Co-founder & CEO at Finloo

Content

What is a digital payment token in Malta?

A digital payment token in Malta is a form of digital financial asset that is not represented by a traditional currency and is accepted as a medium of exchange. It can be used for various activities, such as buying goods and services, and can be traded on various platforms.

In Malta, digital payment tokens are generally referred to as virtual financial assets (VFAs) under the Virtual Financial Assets Act (VFA Act). These tokens are recognized within the regulatory framework established by the Malta Financial Services Authority (MFSA). The classification and regulation of these tokens are aimed at ensuring consumer protection and the integrity of the financial system.

What are the tax incentives provided by the government this year for Web3 Businesses and Individuals?

Malta offers several tax incentives for Web3 businesses and individuals, including:

- Investment Deductions: Tax credits and deductions for investments in qualifying industries such as information technology and biotechnology.
- Startup Incentives: Reduced corporate tax rates and additional deductions for eligible expenditures for startups.

- Intellectual Property (IP) Regime: Favorable tax treatment for income derived from qualifying IP rights, such as patents and copyrights.

- Participation Exemption: Companies can receive dividends and capital gains from qualifying shareholdings tax-free.

- Double Taxation Treaties: Relief mechanisms to avoid double taxation on income earned abroad for tax residents of Malta.

For example, the benefit may be applied as follows: the standard corporate income tax rate is 35%, but with appropriate structuring, this can be reduced to between 0-5%. Additionally, part-time crypto miners benefit from a flat 10% tax rate on the first €10,000 of income.

What are the crypto tax rates in Malta?

In Malta, crypto tax rates depend on the type of transaction the type of income. Some transactions, such as buying crypto with fiat, holding crypto, and transferring crypto between wallets, are tax-free. Capital gains from the sale of cryptocurrencies are typically not subject to capital gains tax also. However, income derived from activities such as:

- selling crypto,
- mining,
- staking,
- yield farming,
- receiving crypto through airdrops,
- forks,
- ICOs is subject to income tax.

The specific income tax rates can vary based on individual or business status and the nature of the income.

In Malta, trading profits from cryptocurrency activities are subject to income tax, which ranges from 15% to 35% depending on the individual's tax residency status. However, long-term investors holding crypto assets for extended periods are exempt from capital gains tax. For corporate entities, the standard corporate income tax rate is 35%.

TAX RATES			
Chargeable Income (€)			
From	To	Rate	Subtract
Single Rates			
0	9,100	0%	0
9,101	14,500	15%	1,365
14,501	19,500	25%	2,815
19,501	60,000	25%	2,725
60,001	and over	35%	8,725
Married Rates			
0	12,700	0%	0
12,701	21,200	15%	1,905
21,201	28,700	25%	4,025
28,701	60,000	25%	3,905
60,001	and over	35%	9,905
Parent Rates			
0	10,500	0%	0
10,501	15,800	15%	1,575
15,801	21,200	25%	3,155
21,201	60,000	25%	3,050
60,001	and over	35%	9,050

How is crypto taxed in Malta?

Crypto is taxed in Malta based on income generated from crypto trades and income-bearing crypto transactions. The taxation of cryptocurrencies is categorized as follows:

Income Tax: Gains from crypto trades and income from mining, staking, yield farming, and ICOs are taxed as income.

VAT: Certain ICOs and transactions may be subject to VAT.

Capital Gains Tax: Generally not applicable to cryptocurrencies unless they are classified as capital assets.

Tax-Free Transactions: Buying crypto with fiat, holding crypto, and transferring crypto between wallets are tax-free.

Mining activities are taxed at a progressive rate, with a special flat rate of 10% for part-time miners on the first €10,000 of income. Payments for goods and services in cryptocurrencies are taxable, and such transactions are VAT-exempt in the EU

When is the deadline for crypto taxes in Malta?

The specific deadline for crypto taxes in Malta aligns with general tax deadlines, which usually fall on April 30th for individuals and June 30th for companies. It's important for taxpayers to stay updated with any changes or extensions announced by the Maltese tax authorities Taxpayers can submit their returns online via the Malta government's tax portal using their e-ID account.

Should Web3 Businesses register for GST in Malta?

Web3 businesses in Malta do not need to register for GST, as cryptocurrency transactions are exempt from VAT in the European Union. This exemption applies to payments made for goods and services using cryptocurrencies.

Web3 businesses involved in taxable activities such as providing services or selling goods may need to register for VAT in Malta. This includes businesses conducting ICOs or selling NFTs that qualify as taxable services.

1. How about withholding tax and stamp duty?

Malta does not impose withholding tax on dividends paid to non-residents, nor does it levy stamp duty on the transfer of crypto assets. This favorable tax treatment makes Malta an attractive destination for crypto businesses and investors. However, traditional stamp duty rules may apply to transactions involving transfer of ownership of certain assets. It`s depend from specific circumstances and nature of the transaction.

The tax treatment of crypto assets in Estonia continues to evolve as the market matures, reach out to Finloo at hello@finloo.io to find out more!

Contact: roksolana@finloo.io

New Zealand

Jodi Collinge

Jodi Collinge trained as a Chartered Accountant and Chartered Tax Adviser in the UK before arriving in New Zealand 15 years ago.
Before starting JC Tax, Jodi spent 12 years as a senior investigator at the IRD with a focus on complex technical tax issues.
She also played an integral role in IRD's crypto asset working group where she worked alongside legal and policy to apply tax legislation to crypto asset transactions.

JC Tax

JC Tax provides tax consultancy services to both clients and accountants with a specialism in crypto asset and international taxation.

New Zealand Crypto Tax Guide 2024

Author: Jodi Collinge, Crypto Asset Tax Specialist at JC Tax

Content

Overview

New Zealand differs to most other tax jurisdictions in that it doesn't have a capital gains tax. Therefore, any gains/losses arising from crypto asset transactions are taxable under the income tax legislation.

The Inland Revenue Department (IRD) classifies crypto assets as property for tax purposes. It is not money or legal tender. This classification was upheld in the case of Ruscoe v Cryptopia Ltd (in liquidation) [2020] NZHC 728 which is one of only a few crypto cases globally.

IRD have recently defined crypto assets in the tax legislation as:
a digital representation of value that exists in—

1. a database that is secured cryptographically and contains ledgers, recording transactions and contracts involving digital representations of value, that are maintained in decentralised form and shared across different locations and persons; or

2. another application of the same technology performing an equivalent function. The definition explicitly excludes non-fungible tokens.

The New Zealand Tax System

New Zealand operates on a system of self-assessment and the income tax year runs from 1 April to 31 March with tax returns being due by 7 July following the tax year for taxpayers that do not have a tax agent. The filing date is extended to 31 March following the tax year for taxpayers with a tax agent.

New Zealand tax residents are subject to tax on their worldwide income whereas non-residents are only subject to tax on New Zealand sourced income.

An individual will be a New Zealand tax resident if they meet either of the following criteria:

1. **Day Count Test:** The individual is personally present in New Zealand for more than 183 days in total in a 12-month period. The person will then be treated as a resident from the first of those 183 days.

2. **Permanent Place of Abode Test:** The individual has a permanent place of abode in New Zealand, even if they also have a permanent place of abode elsewhere.

Additionally, an individual who is a resident by virtue only of the 183-day rule will stop being a New Zealand resident if they are personally absent from New Zealand for more than 325 days in total in a 12-month period. The person will then be treated as not resident from the first of those 325 days. However, the permanent place of abode test is the overriding residence rule, meaning that a person who continues to have a permanent place of abode in New Zealand will remain a resident even if they are absent for more than 325 days.

A company will be tax resident in New Zealand if it meets any of the following criteria:

1. It is incorporated in New Zealand.
2. Its head office is in New Zealand.
3. Its centre of management is in New Zealand.
4. Its directors, in their capacity as directors, exercise control of the company in New Zealand, even if the directors’ decision-making also occurs outside New Zealand.

Tax Treatment of Crypto Assets

Taxable events include disposing crypto assets for fiat currency, exchanging one crypto asset for another crypto asset, using crypto assets to buy goods or services and gifting crypto assets.

Cost Basis

The IRD permits a taxpayer to use 3 methods of cost allocation when calculating their taxable income:

1. Where the crypto asset disposed of can be specifically identified and traced then the actual cost can be method.
2. First In, First Out (FIFO)
3. Weighted average cost (WAC)

The IRD specifically excludes Last In, First Out (LIFO) as a cost basis method. Whilst taxpayers can initially choose a cost basis method it is expected that the chosen basis will be applied in a consistent manner.

Crypto Incentives

New Zealand does not have any specific incentives relating to crypto assets although it is possible to take advantage of some general rules. One such rule relates to transitional residency.

A transitional resident is a special category of New Zealand tax resident, which includes new migrants to New Zealand or former New Zealand tax residents returning after an extended period overseas.

To qualify as a transitional resident, a person must:
1. Be a New Zealand tax resident.
2. Not have been a New Zealand tax resident in the preceding 10 years before becoming a New Zealand tax resident.
3. Not have been a transitional resident before.

Transitional residents are exempt from tax on most foreign-sourced income (other than income from employment and services) for a period that generally lasts four years but can extend slightly longer in some cases, depending on how they became a New Zealand tax resident.

As New Zealand taxes income on a source basis this means that a transitional resident who disposes of crypto assets offshore (that are not part of their business) will not be subject to tax in New Zealand. This can create tax planning opportunities for reducing income tax liabilities during the transitional period. It should be noted that once the transitional residence period ends there is no revaluation to market value.

The crypto assets retain their original cost under the chosen method adopted. In addition, transitional residence is only available to individuals.

Income Tax Rates for Individuals As there are no specific tax rules relating to crypto assets, normal income tax rates apply. There is no tax-free allowance in New Zealand. However, the tax bands will be increased from 31 July 2024 which is the first time in more than 10 years.

Until 31 July 2024		From 31 July 2024	
Income Level	**Tax Rate**	**Taxable Income**	**Tax Rate**
$ 0 - $ 14,000	10.5%	$ 0 - $ 15,600	10.5%
$ 14,001 - $ 48,000	17.5%	$ 15,601 - $ 53,500	17.5%
$ 48,001 - $ 70,000	30.0%	$ 53,501 - $ 78,000	30.0%
$ 70,001 - $ 180,000	33.0%	$ 78,001 - $ 180,000	33.0%
$ 180,001 +	39.0%	$ 180,001 +	39.0%

Crypto Asset Businesses

If you are considered a crypto asset trader, provide a mining service or operate a crypto asset exchange, the same principles apply. Any income arising from crypto asset transactions are taxable. The main difference between a business and an investor is that as a business, crypto assets will generally be treated as trading stock and will be subject to trading stock rules. If the business is incorporated as a limited company the income tax rate is a flat rate of 28%.

Losses

As crypto asset transactions are subject to ordinary income tax rules if a loss arises this can be offset against other taxable income (for example employment income or interest income) arising in the tax year. The loss is not ringfenced. If the loss cannot be fully utilized in the current income year, it can be carried forward and utilized in future years. The loss cannot be carried back.

Loss or theft of crypto assets

A deduction is available if crypto assets are lost or stolen. The onus of proof is on the taxpayer to substantiate the claim – they must be able to demonstrate that they owned the assets, the cost of them and that they no longer have access to them. The loss available is the original cost of the assets not the market value at the time of the loss.

Staking Rewards

There are 2 taxable events for this type of reward. The market value of the rewards is taxable at the time of receipt and any gain/loss on the disposal of the staking rewards is also a taxable event.

For example: $50 worth of rewards are received on 30 June. This creates $50 of taxable income. The reward tokens are disposed of on 31 December for $70. This creates further taxable income of $20 (the $50 market value is used as the cost basis of the reward tokens).

Airdrops

Airdrops are taxable but may have one taxable event or two. If you have actively completed transactions/actions to become eligible for an airdrop, the crypto assets will be taxable at market value at the time of receipt and then again on disposal (a similar situation to the staking rewards described above).

If the airdrop was unsolicited (you were not expecting to receive them) then it will not be taxable at the time of receipt, but the proceeds will be fully taxable on disposal of the airdropped tokens.

GST

The GST rate in New Zealand is 15% and the threshold for compulsory registration is $60,000 (calculated on a rolling 12-month basis). IRD have specifically excluded crypto assets from its GST legislation. This means that buying and selling crypto assets is not subject to GST and registration is not required. The reason for this is to ensure that the rules do not impose barriers to developing new products, raising capital or investing through crypto assets.

However, if you receive crypto assets as payment for goods and services, GST is still charged in the normal way. When you later dispose of those crypto assets you do not need to account for GST on the sale. If you are providing a mining service, this is deemed to be a supply for

GST purposes so you must register and charge GST if the threshold is exceeded.

However, it is likely that the service will be to an offshore platform so the GST will be zero-rated.

If you create and sell NFT's, and the purchaser is in New Zealand, the sales will be subject to GST as NFT's are specifically excluded from the definition of crypto assets. In practice, due to the nature of blockchain technology, it may not be possible to identify where the purchaser is located which creates issues around whether the sale should be standard-rated or zero-rated.

The tax treatment of crypto assets in the New Zealand continues to evolve as the market matures, reach out to Jctax at jodi@jctax.co.nz to find out more!

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Poland

Finloo

Roxy

Web3 Finance Expert/ Co-founder & CEO Finloo/WoWG #6049/ Member at WTECH, Web3Finance Club
More than 11 years of experience in finance, accounting, and bookkeeping.

Finloo

One-stop shop of top-tier accounting services for Web3 projects in different areas such as DAO, DeFi, NFT projects, gaming, and others in Web3.
What was done:

- Incorporated and successfully supported 20+ companies in Hong Kong.
- Reconciled 10k+ blockchain transactions as well as 40k+ bank accounts and credit cards transactions.
- Prepared and delivered financial statements for over 20 companies ensuring accurate reflection of both fiat and crypto transactions.

Poland Crypto Tax Guide 2024

Author: Roxy, Co-founder & CEO at Finloo

Overview

Poland is a popular destination for crypto startups and investors, thanks to its favorable regulations and supportive environment, with over 900,000 residents owning cryptocurrency. The country has been a pioneer in blockchain integration, using it for emergency services, and has recently introduced the PIT-38 tax form to simplify crypto transaction reporting.

1. What is a digital payment token in Poland?
2. How is crypto taxed in Poland?
3. What are the crypto tax rates in Poland?
4. When is the deadline for crypto taxes in Poland?
5. Should Web3 Businesses register for VAT in Poland?
6. Should the business file tax return if no cryptocurrency was disposed of?

What is a digital payment token in Poland?

In Poland, cryptocurrency taxation is governed by specific guidelines within Polish tax law. Under the Personal Income Tax Act, virtual currency is defined as a digital representation of value that can be exchanged for legal tender and accepted as a means of exchange. Examples include Bitcoin, Ethereum, and other cryptocurrencies. Virtual currency, however, excludes electronic money, financial instruments, bills of exchange, cheques, etc.

How is crypto taxed in Poland?

Since cryptocurrencies are treated as virtual assets in Poland, income from their disposal is reported as a capital gain in a separate section of the PIT-38 form.

It`s important to understand that exchanging one cryptocurrency for another does not itself trigger a tax liability. Therefore, if a taxpayer buys SOL and then trades it for USDC, no taxable income is recognized. However, a taxable event occurs when the taxpayer:

1. exchanges cryptocurrency for a legal tender (i.e. USD, PLN, EUR);
2. exchanges cryptocurrency to pay for goods or services;
3. exchanges cryptocurrency for property rights or using it to settle liabilities.

Simply put, your capital gains will be only taxed if you converted your crypto to fiat. The tax base will be the difference between the sale and purchase prices, resulting in either income or capital loss. On practice, it means that majority of transactions - like trading crypto for crypto - are tax free in Poland. You pay capital gain tax on income received during one fiscal year.

What are the crypto tax rates in Poland?

All income from cryptocurrency disposals, regardless of the amount, is subject to the 19% flat tax rate. This includes various crypto activities such as trading, exchanging, mining, ICO, etc.

When is the deadline for crypto taxes in Poland?

In Poland, the company's financial year aligns with the calendar year: it lasts from January 1st to December 31st. Starting from February 15th of the following year, Polish taxpayer must report any crypto gains to KAS (local tax office) on their annual tax returns.

The deadline for the tax return submission is 30 of April. If the deadline falls on a weekend or a holiday, the deadline would be postponed till the first working day following the holidays. The relevant tax return form for cryptocurrency is PIT-38. You can submit it online or in paper form at Tax office or Post office.

Should Web3 Businesses register for VAT in Poland?

Since 2015, the issue of cryptocurrencies taxation with VAT has been regulated in Poland. The Court of Justice of the European Union (CJEU) ruled that exchanging fiat for virtual currency and vice versa is exempt from VAT as cryptocurrencies are considered means of payment rather than property. The Ministry of Finance has affirmed this interpretation in numerous statements in line with the CJEU guidelines.

Should the business file tax return if no cryptocurrency was disposed of?

PIT-38 tax return should be submitted even if the taxpayer did not receive any income and only incurred expenses for the cryptocurrency acquisition. Businesses can carry their capital losses forward as long as they have expenses to be accounted for and in the following years, they may offset their losses against capital gains upon selling virtual currencies.

The tax treatment of crypto assets in Poland continues to evolve as the market matures, reach out to Finloo at hello@finloo.io to find out more!
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Singapore

Chan Wei Xiang

Chan Wei Xiang is a Core Contributor at Launch Factor, a leading web3 professional accounting firm. As a Chartered Accountant (Singapore) with an MBA from NTU, he has gained extensive experience working in esteemed institutions, including OKX, DigiFT, and KPMG.

Launch Factor

Founded by finance professionals from Binance, Genesis, Web3 projects and Big 4. We provide specialisation in Web 3 accounting, compliance, audit rediness, financial due diligence and investigation services

Singapore Crypto Tax Guide 2024

Author: Chan Wei Xiang, Core Contributor at Launch Factor

Overview

1. Capital Gains from the disposal of digital payment tokens (Include BTC and ETH) by Web3 Businesses and Individuals are not subject to capital gain tax in Singapore as there is no capital gain tax in Singapore.

2. Whether gains from the disposal of digital tokens are trading or capital gains depends on the facts and circumstances of each case. Factors such as purpose, frequency of transactions, and holding periods are considered when determining if such gains are taxable.

With 20 licensed holders and over 50 applicants in progress, Singapore continues to be a key financial center supporting the crypto industry's growth. The Monetary Authority of Singapore (MAS) has established guidelines to ensure a safe and conducive environment for this sector, including regulations for stablecoins. This supportive regulatory framework has positioned Singapore as a leading hub for crypto startups and innovation. In 2024, the approval of a $2 billion top-up for the financial sector development fund further demonstrates the government's commitment to the financial services industry.

Content

- What is a digital payment token in Singapore?
- What are the tax incentives provided by the government this year for Web3 Businesses and Individuals?
- What are the crypto tax rates in Singapore?
- How is crypto taxed in Singapore?
- When is the deadline for crypto taxes in Singapore?
- Should Web3 Businesses register for GST in Singapore?
- How about withholding tax and stamp duty?

What is a digital payment token in Singapore?

TL;DR: BTC / ETH and others

A digital payment token is a digital token that has the following characteristics:
(a) it is expressed as a unit;
(b) it is designed to be fungible;
(c) it is not denominated in any currency, and is not pegged by its issuer to any currency;
(d) it can be transferred, stored or traded electronically; and
(e) it is, or is intended to be, a medium of exchange accepted by the public, without any substantial restrictions on its uses as consideration.

but does not include:
(f) money;
(g) anything which, if supplied, would be an exempt supply under Part I of Fourth Schedule to the GST Act for a reason other than being a supply of a digital token(s) having the characteristics of (a) to (d);
(h) anything which gives an entitlement to receive or to direct the supply of goods or services from a specific person or persons and ceases to function as a medium of exchange after the entitlement has been used.

What are the tax incentives provided by the government this year for Web3 Businesses and Individuals?

Budget 2024 - Impact on Web3 Businesses

1. To help companies manage rising costs, a CIT Rebate of 50% of tax payable will be granted for YA 2024. The maximum total benefits of CIT Rebate and CIT Rebate Cash Grant that a company may receive is $40,000.
2. Introduce an additional concessionary tax rate ("CTR") tier of 10% for the Finance and Treasury Centre ("FTC") incentive
3. Introduce an additional CTR tier of 15% for the Intellectual Property Development Incentive ("IDI")

Budget 2024 - Impact on Web3 Individuals

1. In view of cost-of-living concerns, a PIT Rebate of 50% of tax payable will be granted to all tax resident individuals for YA 2024. The rebate will be capped at $200 per taxpayer.
2. Raise dependant's or caregiver's income threshold for dependant related reliefs to $8,000

What are the crypto tax rates in Singapore?

Web3 Individuals

Income tax rates depend on an individual's tax residency status. You will be treated as a tax resident for a particular Year of Assessment (YA) if you are a:

1. Singapore Citizen or Singapore Permanent Resident who resides in Singapore except for temporary absences; or

2. Foreigner who has stayed/worked in Singapore:
a. For at least 183 days in the previous calendar year; or
b. Continuously for 3 consecutive years, even if the period of stay in Singapore may be less than 183 days in the first year and/or third year; or

3. Foreigner who has worked in Singapore for a continuous period straddling 2 calendar years and the total period of stay is at least 183 days*. This applies to employees who entered Singapore but excludes directors of a company, public entertainers, or professionals.

*including your physical presence immediately before and after your employment
If you do not meet the conditions stated above, you will be treated as a non-resident of Singapore for tax purposes.

Resident tax rates

Chargeable Income	Income Tax Rate (%)	Gross Tax Payable ($)
First $20,000 Next $10,000	0 2	0 200
First $30,000 Next $10,000	- 3.50	200 350
First $40,000 Next $40,000	- 7	550 2,800
First $80,000 Next $40,000	- 11.5	3,350 4,600
First $120,000 Next $40,000	- 15	7,950 6,000
First $160,000 Next $40,000	- 18	13,950 7,200
First $200,000 Next $40,000	- 19	21,150 7,600
First $240,000 Next $40,000	- 19.5	28,750 7,800
First $280,000 Next $40,000	- 20	36,550 8,000
First $320,000 Next $180,000	- 22	44,550 39,600
First $500,000 Next $500,000	- 23	84,150 115,000
First $1,000,000 In excess of $1,000,000	- 24	199,150

Web3 Businesses

Your company is taxed at a flat rate of 17% of its chargeable income. This applies to both local and foreign companies. Foreign income refers to income derived from outside Singapore. Generally, such income is taxable in Singapore when remitted to and received in Singapore. Where the foreign income arises from a trade or business carried on in Singapore, it is taxable in Singapore upon accrual, regardless of whether it is received in Singapore.

Where a gain from a transaction involving payment token is subject to tax, the issue of source of the income could arise. IRAS will consider the whole operation of the taxpayer's trade or business when determining what the taxpayer has done to derive the income in question, and where those activities are performed. If the bulk of the business operations are performed in Singapore, then income derived from such activities would likely be regarded as sourced in Singapore and hence taxable in Singapore. However, there is no single factor that is conclusive. All facts should be considered holistically to determine if the activities that gave rise to the income are mainly carried on in Singapore.

Some relevant factors to consider are:

1. Whether the company has any physical presence in Singapore (e.g. office, employees); and
2. Whether the key activities (e.g. operating and maintaining a token exchange platform in Singapore) are carried out in Singapore.

The tax exemption scheme for new start-up companies was introduced in the Year of Assessment (YA) 2005 to support entrepreneurship and to grow local enterprises.

- 75% exemption on the first $100,000 of normal chargeable income*; and
- A further 50% exemption on the next $100,000 of normal chargeable income*.

How is crypto taxed in Singapore?

Businesses that choose to accept digital tokens such as Bitcoins for their remuneration or revenue are subject to normal income tax rules. They are taxed on the income derived from or received in Singapore.

Tax deductions are allowed, where permissible, under SG tax laws.

Generally, these businesses should record the sale based on the open market value of the goods or services in Singapore dollars. The same applies for businesses which pay for goods or services using digital tokens.

If the open market value of the goods or services that would have otherwise been exchanged in Singapore dollars cannot be determined (e.g. the good or service is only traded with digital tokens), the digital token exchange rate at the point of the transaction may be used.

Currently, IRAS does not prescribe any methodology to value digital payment tokens. Taxpayers can use an exchange rate that best reflects the value of the tokens received, provided that the following two conditions are satisfied:

1. The exchange rate must be reasonable and verifiable e.g. it is determined using an average of exchange rates available on payment token exchanges, such as Coinbase and Binance. Where the exchange rate is not available on exchanges, taxpayers can use other means to support th2eir claim that the basis of the exchange rate used is reasonable.

2. The methodology used to determine the exchange rate should be consistently applied year on year.

Learn more about the tax treatment of digital tokens received as payment

Businesses that buy and sell digital tokens in the ordinary course of their business are taxed on the profit derived from trading in the digital token. In addition, profits derived by crypto mining businesses which mine and trade digital tokens in exchange for money are also subject to tax.

Businesses that buy digital tokens for long-term investment purposes may enjoy capital gains from the disposal of these digital tokens. However, as there are no capital gains taxes in Singapore, such gains are not subject to tax. For the definition of long-term, it is suggested to check with Launch Factor or other tax accountants.

Whether gains from the disposal of digital tokens are trading or capital gains depends on the facts and circumstances of each case. Factors such as purpose, frequency of transactions, and holding periods are considered when determining if such gains are taxable.

When is the deadline for crypto tax in Singapore?

Web3 Individuals

The deadline for filing taxes on cryptocurrency transactions in Singapore aligns with the general tax schedule that runs from January 1 to December 31. Taxpayers must report their taxable income, including any gains from cryptocurrency trading, by April 15 for paper filing and April 18 for e-filing.

Web3 businesses

Tax Return	Purpose	Due Date
ECI	To declare an estimate of the company's taxable income for a Year of Assessment (YA)	Within 3 months from the end of the financial year, except for companies that qualify for the ECI filing waiver and those that are specifically not required to file an ECI
Form C-S/ Form C-S (Lite)/ Form C	To declare the company's actual taxable income for a YA	30 Nov each year

Should Web3 Businesses register for GST in Singapore?

The use of digital payment tokens as payment for goods or services will no longer give rise to a supply of those tokens. That is, if you use digital payment tokens to pay for the purchase of goods or services, you need not account for GST on the use. A supply of digital payment tokens in exchange for fiat currency or other digital payment tokens, and the provision of any loan, advance or credit of digital payment tokens will be exempt from GST. Therefore, the supply of such tokens, being an exempt supply, will not contribute to your annual taxable turnover for the determination of your liability for GST registration.

Compulsory

You must register for GST if your taxable turnover is:

1. Under the retrospective view, more than $1 million at the end of the calendar year, or
2. Under the prospective view, expected to be more than $1 million in the next 12 months

Voluntary

One of the benefits of registering for GST is that you can claim the GST incurred on your purchases, subject to the conditions for claiming input tax. However, if you are a partially exempt business or an organisation with business and non-business activities, you will not be able to claim your input tax in full, as the input tax attributable to the making of exempt supplies, wholly non-business activities and activities with non-business elements are not claimable.

Under the reverse charge mechanism, the GST-registered recipient of the imported services or low-value goods, accounts for GST on those services or goods as if he were the supplier. Concurrently, he may claim the GST as his input tax subject to the normal input tax recovery rules.

Web3 businesses should consider voluntary registration of GST given the GST incurred on the purchase might be claimable even if the business is loss making.

How about withholding tax and stamp duty?

With the rise of security/ asset-backed/ RWA/ stablecoins tokens, relevant issuers or holders will need to be aware of withholding tax and stamp duty in Singapore. Generally stamp duty is payable on share transfer in Singapore and Web3 businesses must withhold tax when a payment of a specified nature has been made to non-resident companies/individuals.

The tax treatment of crypto assets in Singapore continues to evolve as the market matures, reach out to Launch Factor at hello@launchfactor.xyz to find out more!

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United Kingdom

monx

Accounting | Tax | Corporate Services

Stefano Passarello

Stefano Passarello is a multifaceted entrepreneur, financier, and innovation mentor based in Hong Kong, He founded StartIT Asia in 2017, an innovative program organized by the Italian Consulate General in Hong Kong. Stefano has also achieved remarkable athletic feats, including holding the Standard Chartered Marathon record in Hong Kong and breaking the AG world record in the marathon split at the Ironman World Championship. In 2021, Stefano founded Monx, an ambitious accounting firm that quickly expanded to offices across Asia, Europe, the Middle East, and North America.

Monx

Monx is a global tax, accounting, and corporate services and cyber security services firm at the forefront of professional service providers. Monx supports fast-growing companies and entrepreneurs with ultra-personalised, time-effective, and tech-enabled services. Their mission is to provide unparalleled support to businesses of all sizes and help them navigate the complexities of the global economy. With Monx, you can count on reliable, expert advice and a team of experienced professionals dedicated to your success.

United Kingdom Crypto Tax Guide 2024

Author: Stefano Passarello, CVO at Monx

Overview

1. Starting from the tax year 2024-25, UK's self-assessment tax return forms will introduce a distinct section for individuals and trusts who have traded crypto assets. This change, aiming to increase tax compliance, will differentiate crypto from the current "other" assets category. This move is anticipated to boost the exchequer's revenue by around £30mn between 2025-28, aligning with a significant reduction in the capital gains tax-free allowance.

2. The government's efforts to position the UK as a crypto stronghold are evident, with initiatives aimed at enhancing transparency in crypto transactions. The new tax reforms could lead to more investors declaring taxable returns. It's crucial for the HMRC to adapt tax rules to the ever-evolving crypto landscape.

Content

What is a digital payment token in the UK?

A digital payment token in the UK refers to a type of cryptocurrency or virtual currency that is used as a medium of exchange. They can be used to purchase goods and services or to facilitate financial transactions, similar to traditional fiat currencies, are secured using cryptography and operate on a decentralized ledger technology, such as blockchain. The use of digital payment tokens in the UK is regulated by the Financial Conduct Authority (FCA) and subject to anti-money laundering and counter-terrorist financing requirements. The FCA has also issued guidance on the classification and treatment of different types of crypto assets, including digital payment tokens, under UK financial regulations.

Both individuals and businesses in the UK can hold, transact, and accept digital payment tokens as a form of payment, though their use is still relatively limited compared to traditional fiat currencies.

What is the definition of cryptocurrency in the UK?

The HM Revenue & Customs defines cryptocurrencies (also called 'cryptoassets' or 'tokens') as digital assets protected by cryptographic techniques that can be transferred, stored, and traded electronically. HMRC identifies four main types:

- Exchange Tokens: Used for payments and investments, e.g., Bitcoin.
- Utility Tokens: Provide access to specific goods or services, often on DLT platforms.
- Security Tokens: Represent rights in a business, like ownership or profit claims.
- Stablecoins: Pegged to stable assets like fiat currency or gold to maintain value.

What are the tax incentives provided by the government this year for Web3 Businesses and Individuals?

The UK government has introduced several tax incentives and initiatives to support the growth of Web3 businesses and encourage individual participation in the Web3 ecosystem. They can be summarized in the following points:

1. Crypto Asset Tax Exemption: The government has introduced a new tax exemption for qualifying crypto asset activities, such as staking and lending. Individuals who earn income from these activities may be eligible for a tax-free allowance of up to £1,000 per year.

2. R&D Tax Credits for Web3 Businesses: Web3 companies engaged in research and development of new technologies, such as decentralized applications, blockchain infrastructure, or cryptography, can claim enhanced R&D tax credits, which allows them to deduct up to 230% of their qualifying R&D expenditures from their taxable income.

3. Capital Gains Tax Deferral for Web3 Investments: Individuals who invest in qualifying Web3 startups or projects can defer their capital gains tax liability until they dispose of the investment.

4. Employer National Insurance Contributions Relief: Businesses employing individuals in Web3-related roles, such as blockchain developers or cryptography experts, can claim a reduced rate of employer National Insurance contributions. This policy helps to offset the cost of hiring skilled Web3 professionals.

5. Web3 Sandbox Initiative: The government has launched a regulatory sandbox program to support the development and testing of new Web3 products and services. Participating companies can benefit from tailored regulatory guidance and opportunities to engage with policymakers.

Businesses and individuals operating in the Web3 space should consult with tax professionals to understand the eligibility requirements and how to take advantage of these policies.

What are the crypto tax rates in the UK?

Cryptocurrencies are taxed in the UK despite being a relatively new asset class. If you hold cryptocurrencies like Bitcoin as a personal investment, dispose of them and make a profit, you must pay Capital Gains Tax on those profits. Additionally, if you earn cryptoassets through mining or as payment for services, you may be subject to Income Tax.

How is crypto taxed in the UK?

When you dispose of crypto asset exchange tokens (known as cryptocurrency), you may need to pay Capital Gains Tax. You pay Capital Gains Tax when your gains from selling certain assets go over the tax-free allowance. Generally speaking crypto taxes in the UK fall into two categories: Capital Gains Tax and Income Tax.

Buying and selling crypto can be liable for Capital Gains Tax (CGT) on any profits, while receiving cryptocurrency from mining, staking, or as a form of payment, is considered taxable income, thus can be subject to Income Tax.
Additionally, earning interest on crypto holdings or through DeFi platforms might also be taxable and you might need to pay other taxes if you receive cryptoassets. For more details, refer to this link.

Capital Gains Tax

Capital Gains Tax ranges from 10% to 20%, applied when disposing of cryptocurrency. You might need to pay Capital Gains Tax when you:

- sell your tokens
- exchange your tokens for a different type of cryptoasset
- use your tokens to pay for goods or services
- give away your tokens to another person (unless it's a gift to your spouse or civil partner)
- donate tokens to charity (in certain circumstances)

In particular, Capital Gains Tax (CGT) is applied to the profit made from selling or disposing of an asset that has appreciated in value, including cryptocurrencies. The tax is only on the gain, not the total amount received. The CGT rate varies based on your taxable income and the type of asset. For higher rate taxpayers (earning over £50,270 in the 2023/2024 tax year), the rate for cryptocurrencies is 20%.

Tax Bracket	Income Range	CGT Rate
Basic Rate	12,571 £ - 50,270 £	10%
Higher Rate	50,271 £ - 125,139 £	20%
Additional Rate	Over 125,140 £	20%

Income Tax

It is important to note that income derived from cryptocurrencies is subject to income tax in the UK. Income Tax ranges from 20% to 45%, applied to crypto received as payment or mining rewards. Income tax rates in the UK are determined based on the amount of income earned and the individual's residency status. The specific income tax rates applicable to cryptocurrency income will depend on the individual's overall income and their tax bracket.

There are three main bands for income tax rates: basic rate, higher rate, and additional rate. For the tax year 2023/2024, the rates are as follows:

Tax Bracket	Income Range	CGT Rate
Personal Allowance	Up to 12,570 £	0%
Basic Rate	12,571 £ - 50,270 £	20%
Higher Rate	50,271 £ - 125,139 £	40%
Additional Rate	Over 125,140 £	45%

Cryptocurrency income in the UK falls into three categories: employment income, self-employment income, and miscellaneous income.

Employment Income: Treated like a salary. Employers calculate the value in pounds, report, and deduct Income Tax and National Insurance through PAYE. Employees should keep records of the crypto received and its value.

Self-Employment Income: Report as self-employment income. Maintain records of transactions and their value in pounds. Include this income on your Self Assessment tax return and deduct eligible business expenses.

Miscellaneous Income: Includes income from mining or airdrops. Keep records of transactions and their value in pounds. Report on the Self Assessment tax return and pay Income Tax based on the crypto's value.

Capital Gains Tax on:	Income Tax on:
• Selling Crypto for Fiat • Swapping Crypto • Spending Crypto • Gifting Crypto (unless it's to your spouse) • Selling NFTs	• Employee Remuneration • Mining Rewards • Bounties • Staking Rewards* • Lending Rewards* • Liquidity Mining Rewards* *depends if deemed revenue or capital in nature

Is there a Tax-Free Allowance?

Yes! The UK provides an Annual Exempt Amount as a tax-free allowance. For the 2023/2024 tax year, it is set at £6,000, decreasing to £3,000 for the 2024/2025 tax year. This amount can be deducted from your total gains, allowing you to realize gains up to this limit without incurring Capital Gains Tax.

When the trades result in capital losses, the losses can offset against the gains to reduce taxes. These losses can be registered on the self-assessment tax return indefinitely. Although it's best to register losses in the year they occur, HMRC allows up to four years to do so. Even if the gains are low and below the tax-free allowance, it's wise to register losses to offset future gains.

When is the deadline for crypto tax in the UK?

The deadline for crypto tax in the UK varies according to the method that is chosen to submit the cryptocurrency transactions to the HMRC (online method or paper method). In particular, if you choose:

1. The paper tax return, the deadline for the submission is October 31st.
2. The online tax return system, the deadline for the submission is January 31st, three months later than the paper return cut-off on October 31st.

How about withholding tax and stamp duty?

Withholding Tax on Crypto in the UK:

There is generally no withholding tax on crypto transactions in the UK. This is because cryptocurrencies are usually treated as assets/property for tax purposes. Any capital gains made on the disposal of cryptocurrencies are subject to Capital Gains Tax (CGT), which the individual is responsible for reporting and paying to HMRC and there is no withholding of this tax at source.

However, if someone is paid in cryptocurrency for goods or services, that would be considered trading income and subject to Income Tax, which may involve withholding under the PAYE system if the recipient is an employee.

Stamp Duty on Crypto in the UK:

Stamp Duty is not generally applicable to crypto transactions in the UK. This is because Stamp Duty is a tax on the legal instruments used to transfer ownership of certain assets, like shares and real estate. Since cryptocurrencies are generally held and transferred digitally, these transactions happen without the use of a legal document that would be subject to Stamp Duty. There are, however, some exceptions, such as if cryptocurrencies are held within a regulated collective investment scheme, in which case Stamp Duty Reserve Tax may apply on the transactions.

In conclusion, the key point to note is that while crypto transactions are not subject to withholding tax or stamp duty, both individuals and businesses are still responsible for properly reporting and paying any applicable taxes, such as Capital Gains Tax or Income Tax, to HMRC.

The tax treatment of crypto assets in the UK continues to evolve as the market matures, reach out to Monx at hello@monx.team to find out more!

Contact: stefano@monx.team

United States

Patrick Camuso

Patrick Camuso is the founder and managing member of Camuso CPA. Patrick worked at Deloitte prior to launching Camuso CPA where he consulted with the world's premier asset managers. Patrick, as an early adopter of Bitcoin, realized early on the revolutionary impact blockchain and cryptocurrency would have for society along with the accounting profession. Patrick pioneered the cryptocurrency tax and accounting industry with Camuso CPA.

Camuso CPA

Camuso CPA is a full-service CPA firm offering a full range of tax, accounting and advisory services to web3 businesses and digital asset investors. Camuso CPA was one of the first CPA firms in the industry to provide their clients cryptocurrency accounting and tax services. Camuso CPA has offered cryptocurrency tax and accounting services since 2016. Camuso CPA was also the first CPA firms to accept cryptocurrency as a form of payment for professional services.

United States Crypto Tax Guide 2024

Author: Patrick Camuso, Managing Director at Camuso CPA

Contents

Introduction

Within the US, cryptocurrency has become an increasingly prominent financial instrument. While not legal tender, cryptocurrency is widely used for investment purposes, online transactions, and even as a store of value. This widespread adoption has necessitated the development of a clear tax framework to govern cryptocurrency transactions.

The Internal Revenue Service (IRS) classifies cryptocurrency as property for tax purposes, distinct from traditional securities or fiat currency. This unique characterization results in specific tax implications for US taxpayers engaging in cryptocurrency activities.

This section of the report delves into the complexities of US crypto taxation, providing a comprehensive overview of relevant considerations for taxpayers. We will explore various taxable crypto events, accounting methods for digital assets, and specific tax treatments for individuals and Web3 entities.

Additionally, the report will address advanced tax planning strategies, compliance approaches, and the evolving regulatory landscape surrounding cryptocurrency.

US Regulatory Framework for Cryptocurrency

The Internal Revenue Service (IRS) classifies cryptocurrency as property for federal income tax purposes. This classification distinguishes cryptocurrency from legal tender and securities. As property, cryptocurrency transactions are subject to capital gains tax rules, with significant implications for reporting and tax liability.

Taxpayers engaging in cryptocurrency transactions are required to report these activities on their federal income tax returns. The specific forms used depend on the nature of the transaction, most commonly:

Form 8949 (Sales and Exchanges of Capital Assets): This form is used to report capital gains or losses realized from the sale or exchange of cryptocurrency holdings. The form captures details such as the date of acquisition and sale, cost basis, and sale proceeds.

Schedule D (Capital Gains and Losses): This schedule summarizes the capital gains and losses reported on Form 8949, ultimately determining the net capital gain or loss for the tax year. This net amount is then factored into the taxpayer's overall taxable income.

In addition to capital gains, income generated from cryptocurrency activities must also be reported. This includes:

Wages and Salaries: Cryptocurrency received as payment for services performed as an employee is reported as wages and must be included in gross income. This income is subject to federal income tax withholding, Social Security, and Medicare taxes.

Self-Employment Income: Payments received in cryptocurrency for services performed as an independent contractor are reported as self-employment income. This income is subject to self-employment tax and must be reported on Schedule C (Profit or Loss from Business) or other realted tax forms depending on entity structure.

Mining Income: Cryptocurrency earned through mining is considered taxable income and must be reported as self-employment income at its fair market value on the date of receipt. It is also subject to self-employment tax.

Staking and Interest Income: Rewards earned from staking and interest received from lending cryptocurrency are considered ordinary income and must be reported at their fair market value when received.

The Financial Crimes Enforcement Network (FinCEN), a bureau of the US Department of Treasury, plays a role in regulating cryptocurrency activity. FinCEN has implemented Anti-Money Laundering (AML) regulations applicable to certain businesses dealing in cryptocurrency.

These regulations primarily target cryptocurrency exchanges and businesses acting as money transmitters. They require these entities to register with FinCEN, implement customer identification and verification procedures (KYC/AML), and report suspicious activity to the authorities. Notably, these AML regulations do not directly apply to individual taxpayers engaging in personal cryptocurrency transactions.

Tax Filing Deadlines

Understanding the various tax filing deadlines is essential for compliance and avoiding potential penalties. Here are the key deadlines for common tax forms:

Form 1040 (Individual Income Tax Return): The deadline to file Form 1040 for most taxpayers is April 15th of the following year. However, extensions can be obtained by filing Form 4868 electronically by the original due date.

Form 1120 (U.S. Corporation Income Tax Return): C corporations generally have a filing deadline of April 15th of the following year. However, corporations with a fiscal year ending other than December 31st may have a different due date based on the close of their fiscal year.

Form 1065 (U.S. Return of Partnership Income): Partnerships typically have a filing deadline of the 15th day of the third month following the close of their tax year. For instance, if a partnership uses a calendar year-end (December 31st), the filing deadline would be March 15th of the following year.

Form 1120S (U.S. Income Tax Return for an S Corporation): S corporations generally follow the same filing deadline as partnerships, which is the 15th day of the third month following the close of their tax year.

Estimated Tax Payments

Estimated tax payments are quarterly installments of income tax liability required for individuals and certain businesses throughout the tax year. These payments help ensure that taxes are paid throughout the year, rather than in a single lump sum at filing time.

Individuals with an expected tax liability exceeding $1,000 after withholding and certain businesses, including corporations and partnerships, may be required to make estimated tax payments.

Estimated tax payments are typically due on the 15th day of April, June, September, and January of the following year.

Taxable Crypto Events in the US

The unique nature of cryptocurrency presents distinct tax implications for US taxpayers. This section explores various taxable events associated with cryptocurrency activities.

Buying and Selling

Calculating Capital Gains/Losses: Capital gains or losses on crypto sales are calculated by subtracting the cost basis from the sale proceeds. A positive result indicates a capital gain, while a negative result signifies a capital loss.

Cost Basis: The cost basis represents the initial investment in a cryptocurrency asset, including the purchase price and any associated fees. It plays a crucial role in determining capital gains or losses when the cryptocurrency is sold or exchanged.

Short-Term vs. Long-Term Capital Gains Tax Rates: The holding period of a cryptocurrency asset determines the applicable capital gains tax rate. Cryptocurrencies held for less than one year before sale are subject to short-term capital gains tax rates, which are generally aligned with the taxpayer's ordinary income tax bracket. Conversely, cryptocurrencies held for at least one year prior to sale qualify for long-term capital gains tax rates, which are typically lower than short-term rates.

Mining and Staking

The IRS considers cryptocurrency rewards earned through mining and staking activities as ordinary income. This means these rewards are taxed at the taxpayer's marginal income tax rate in the year they are received.

In exchange for validating transactions on a blockchain network, miners and stakers receive cryptocurrency rewards. The fair market value of these rewards on the date of receipt is considered taxable income. Taxpayers should maintain accurate records of their mining or staking activity to properly report these earnings.

While mining rewards are treated as ordinary income, miners may also be subject to self-employment taxes (Social Security and Medicare taxes). This applies, depending on entity structure, if mining activities are considered a trade or business by the IRS.

Airdrops and Hard Forks

Airdrops, where new tokens are distributed to existing holders, may be considered taxable income at the fair market value on the date of receipt. Hard forks, which can result in the creation of new cryptocurrencies, may also be considered taxable income at fair market value on the date of receipt.

Receiving Crypto as Payment for Goods or Services

When cryptocurrency is received as payment for goods or services rendered, the fair market value of the cryptocurrency at the time of receipt is treated as ordinary income. The taxpayer must recognize this income on their tax return.

Wrapping & Unwrapping

Wrapping involves converting one cryptocurrency into another form to facilitate use on a different blockchain or within specific DeFi protocols. For example, wrapping Bitcoin into Wrapped Bitcoin (WBTC) on the Ethereum network.

The IRS has not provided explicit guidance on wrapping, but it may be treated as a taxable event. This means that converting Bitcoin to WBTC could be considered a sale of Bitcoin, triggering capital gains or losses based on the fair market value at the time of conversion.

Taxpayers should report the fair market value of the new token received (e.g., WBTC) and compare it to the cost basis of the original asset (e.g., Bitcoin) to calculate any gains or losses. Unwrapping is the process of converting wrapped tokens back to their original form, such as converting WBTC back to Bitcoin.

Similar to wrapping, unwrapping may also be treated as a taxable event. The conversion back to the original cryptocurrency could trigger capital gains or losses. Taxpayers should report the fair market value of the original asset at the time of unwrapping and compare it to the cost basis of the wrapped token to calculate any gains or losses.

Liquidity Provisions

Providing liquidity typically involves depositing cryptocurrency into a liquidity pool on a decentralized exchange (DEX) to facilitate trading and earn rewards.

Depositing assets into a liquidity pool may be considered a taxable event, as it can be seen as a disposal of the original assets and acquisition of a new position in the pool tokens.

Withdrawal from a liquidity pool can also trigger capital gains or losses based on the fair market value of the tokens withdrawn compared to their original cost basis.

Earnings from liquidity provision, such as fees and rewards, are considered ordinary income and should be reported at their fair market value at the time of receipt.

Lending with Obligation to Return Identical Asset

Lending cryptocurrency through DeFi lending platforms is another common activity with nuanced tax implications.

When a borrower receives a loan in cryptocurrency by putting up collateral, the initial receipt of the loan is generally not considered a taxable event.

If the lender returns a different cryptocurrency or asset as collateral, the IRS may treat this as a taxable exchange. The borrower must report any capital gains or losses based on the fair market value of the different asset at the time of return compared to its cost basis.
If the borrowed cryptocurrency is used for transactions, any subsequent trades, sales, or exchanges will trigger taxable events. The taxpayer must report any capital gains or losses based on the fair market value of the cryptocurrency at the time of the transaction compared to its value when the loan was received.

Any interest paid on the loan in cryptocurrency is considered ordinary income for the lender and should be reported at its fair market value at the time of payment. For the borrower, interest payments may not be deductible unless they qualify as business expenses or investment interest under specific tax rules.

The IRS has not provided explicit guidance on all aspects of DeFi lending, especially concerning the use of collateral, margin calls, and the treatment of potential gains or losses during the lending period. As such, taxpayers should stay informed about updates in regulatory guidance and consider consulting tax professionals to navigate these complexities.

Borrowers should maintain detailed records of all loan transactions, including the amount and type of cryptocurrency borrowed, the date of receipt, the fair market value at the time of receipt, interest payments made, and the date and amount of repayment. Proper documentation ensures compliance with IRS regulations and helps avoid potential penalties.

Specific Tax Considerations for US Taxpayers

Accounting Method Selection

Accurately tracking the cost basis of cryptocurrency holdings is crucial for calculating capital gains and losses on future sales. The chosen accounting method significantly impacts this process.

The IRS currently considers FIFO (First-In, First-Out) as the default accounting method for cryptocurrency transactions. This method assumes that the cryptocurrencies sold are the ones acquired earliest. While simple to implement, FIFO may not always reflect the actual order of disposal, potentially leading to higher reported gains.

For a more accurate reflection of capital gains and losses, taxpayers can elect to use the Specific Identification method. This method allows taxpayers to identify the specific cryptocurrency units (tax lots) being sold at the time of disposal. However, the Specific Identification method comes with stricter requirements that are often overlooked:

Clear Designation: Taxpayers must maintain detailed records that explicitly denote the specific tax lot being sold at the time of each transaction.

On-Chain Transparency: The flow of funds on the blockchain network should demonstrably match the specific tax lots reported to the IRS. This ensures consistency between on-chain activity and tax reporting.

Unfortunately, the specific identification requirements have often been overlooked by both taxpayers and tax firms. At Camuso CPA, we have consistently advised clients of the importance of adhering to these requirements when utilizing the Specific Identification method.

Recognizing this widespread oversight, the IRS issued Revenue Procedure 2024-28. This guidance allows taxpayers who incorrectly reported cryptocurrency transactions using the Specific Identification method to rectify their errors under certain conditions.
Selecting the most appropriate accounting method is essential for ensuring accurate basis calculations. Here's a breakdown to consider:

FIFO: Simpler to implement but may not reflect actual disposal order, potentially leading to higher reported gains.
Specific Identification: Offers greater accuracy but requires meticulous recordkeeping, on-chain fund management and on-chain traceability.

A valuable tax strategy for cryptocurrency investors involves segregating assets into separate wallets categorized by tax lot. This allows for a clearer picture of cost basis for each tax lot and facilitates the selection of specific units for sale when employing the Specific Identification method.

By understanding these accounting methods and the importance of accurate recordkeeping, taxpayers can optimize their tax strategies and ensure compliance with IRS regulations.

Gifting Cryptocurrency

Gifting cryptocurrency can be a generous way to share your digital assets with loved ones. However, there are tax implications to consider for both the giver and the recipient.

The giver's original cost basis in the cryptocurrency carries over to the recipient. This means the recipient's potential capital gain or loss upon selling the gifted crypto is calculated based on the giver's purchase price, not the fair market value at the time of gifting.

The IRS allows tax-free gifting of cryptocurrency up to a certain annual exclusion amount. If the total value of the gifted crypto exceeds this amount, the giver may be subject to gift tax on the excess amount. However, a lifetime gift tax exemption allows for a significant amount of tax-free gifting before any tax liability is incurred.

It's crucial for the giver to maintain clear records of the gifted cryptocurrency transaction, including the date of transfer, the fair market value at the time of gifting, and the recipient's information. This documentation will be essential if the giver needs to report the gift for tax purposes.

Inheriting Cryptocurrency

Inheriting cryptocurrency can be a valuable asset received from a loved one. Fortunately, there's a significant tax advantage associated with inherited crypto.

Inherited cryptocurrency receives a stepped-up basis to its fair market value on the date of the decedent's death. This eliminates any capital gains tax liability for the inheriting party upon subsequent sale. The inheritor's basis becomes the current market value, effectively wiping out any potential capital gains tax from the time the deceased acquired the crypto.

While there's no capital gains tax on the inherited crypto itself, the inheritor may need to report the inheritance on their tax return if the total value of the estate exceeds a certain threshold.

Donating Cryptocurrency

Donating cryptocurrency to qualified charities offers potential tax benefits for the donor. Donating cryptocurrency to a qualified charitable organization generally allows the donor to deduct the fair market value of the donated crypto at the time of the contribution from their taxable income, subject to certain limitations based on the type of charity and the donor's income level.

Donating appreciated cryptocurrency avoids capital gains tax that would typically be triggered upon selling the crypto. This allows the donor to maximize the charitable contribution while avoiding tax implications.

Ensure the charity you're donating to is qualified to receive cryptocurrency donations. Some charities may not have the resources to handle cryptocurrency directly. Consider using a Donor-Advised Fund (DAF) that specializes in cryptocurrency donations. DAFs allow you to donate your crypto to the fund and receive an immediate tax deduction, while the DAF has the flexibility to invest and distribute the funds to qualified charities over time.

Web3 Entities

The decentralized nature of Web3 introduces unique tax challenges for companies operating within this ecosystem.

The Web3 company's operational activities, such as generating revenue through service fees or royalties, will be subject to income tax. Cryptocurrencies held by a Web3 company may be subject to tax on capital gains or losses when sold.

The legal structure chosen by a Web3 company will significantly impact its tax treatment. For instance:

Corporations (C Corps): Treated as separate entities from their owners. Profits are subject to corporate income tax at the entity level, and dividends paid to shareholders may be taxed again as individual income.
Limited Liability Companies (LLCs): Often considered pass-through entities. The company's profits and losses "pass through" to the individual members' tax returns, avoiding double taxation.

Web3 companies involved in blockchain development or other qualifying R&D activities may be eligible for the R&D tax credit, which reduces their federal income tax liability.

For Web3 companies granting employees cryptocurrency options or restricted token units (RTUs), an 83(b) election allows employees to recognize ordinary income tax on the grant date rather than when the options vest or the RTUs settle. This can offer tax benefits in situations where the expected future value of the cryptocurrency is higher than the grant price.

Broker Regulations and Form 1099-DA

Recent IRS regulations have introduced significant changes regarding how cryptocurrency brokers report customer transactions, specifically through Form 1099-DA (Digital Asset Proceeds from Broker Transactions). This form is designed to enhance tax compliance and transparency in the cryptocurrency market by requiring brokers to report key information.

By mandating the reporting transaction details, the IRS aims to provide a clearer picture of cryptocurrency transactions, facilitating better enforcement of tax compliance and reducing discrepancies between reported income and broker data.

The impact of Form 1099-DA on U.S. crypto tax compliance is expected to be substantial. Increased reporting accuracy will enable the IRS to cross-reference transaction data with individual taxpayer returns, minimizing underreporting. Furthermore, enhanced transparency will likely streamline IRS enforcement actions against non-compliance, allowing for more effective identification of discrepancies in taxpayer reporting.

The final regulations have delayed rules for non-custodial providers, such as those participating in decentralized finance (DeFi). Proposed regulations from August 2023 introduced the concept of "effectuating transfers," which encompasses various DeFi participants, including software wallets and liquidity providers. The Treasury and IRS have indicated their intention to clarify definitions related to non-custodial participants in the near future.

Certain transactions have also been excluded from reporting requirements pending further study, including wrapping/unwrapping, liquidity provision, consensus layer and liquid staking, lending with an obligation to return identical assets among others. This exclusion reflects the complexity and evolving nature of the cryptocurrency ecosystem.

The implementation of Form 1099-DA marks a significant step toward enhancing transparency and compliance in cryptocurrency transactions. However, the complexities of the final regulations necessitate careful navigation and proactive record-keeping by taxpayers and industry participants. As the regulatory landscape evolves, staying informed will be crucial for effective compliance.

Crypto Tax Enforcement

The Internal Revenue Service (IRS) has demonstrably intensified its focus on ensuring cryptocurrency tax compliance. Recognizing the growing adoption and complexity of cryptocurrency transactions, the IRS has prioritized enforcing tax regulations within this evolving digital asset landscape.

The IRS has taken a more aggressive stance against crypto tax evasion through high-profile enforcement actions. Cases like those against Frank Alghren III and Roger Ver serve as a clear message to taxpayers about the IRS's commitment to pursuing crypto tax delinquencies. These actions highlight the potential consequences for failing to report cryptocurrency income or misrepresenting transactions on tax returns.

To enhance its ability to track cryptocurrency activity, the IRS is actively working with cryptocurrency exchanges. This collaboration facilitates the acquisition of valuable transaction data from these platforms. A significant development in this area is the introduction of Form 1099-DA.

This form, expected to be more widely used in the coming years, requires cryptocurrency exchanges to report details of customer transactions to the IRS. This will significantly improve the IRS's ability to identify potential tax non-compliance.

Enforcing crypto tax laws presents unique challenges for the IRS. The inherent pseudonymity associated with certain cryptocurrencies and the existence of foreign exchanges can create obstacles for tracking transactions. However, the IRS is not without resources.

Programs like the Joint Chiefs of Global Tax Enforcement (J5) allow for international data sharing and collaboration with tax authorities in other countries. This collaborative approach strengthens the IRS's ability to identify and pursue crypto tax offenders, even if they operate outside the US.

Predicting the Future of Crypto Tax Enforcement:

Focus on Non-Reporters and Accounting Methods

Expect the IRS to leverage advanced data analytics to identify taxpayers with cryptocurrency holdings who haven't reported income from these assets. This could involve matching data from cryptocurrency exchanges (through Form 1099-DA or other sources) with tax returns to identify discrepancies.

The IRS may prioritize enforcement actions against taxpayers with significant unreported cryptocurrency income, particularly those demonstrating a lavish lifestyle inconsistent with their reported income.

The IRS may increasingly monitor social media platforms to identify individuals publicly discussing their cryptocurrency activities. These discussions could be used as evidence of unreported income.

In addition to non-reporters, the IRS is likely to prioritize identifying taxpayers who incorrectly used Specific ID accounting method without proper recordkeeping and on-chain traceability. This could lead to audits, adjustments, and potential penalties. The IRS may also increase scrutiny of tax preparers who have advised clients to misuse Specific ID. Penalties could be imposed for negligence or intentional disregard of tax regulations.

The IRS may also dedicate resources to scrutinizing the accuracy of cost basis calculations overall, particularly for taxpayers who have been actively trading cryptocurrency over a long period. Inaccurate cost basis calculations can significantly impact reported capital gains or losses often times across several tax years.

The IRS is actively embracing technological advancements to strengthen its crypto tax enforcement capabilities while partnering with software providers and tax professionals to efficiently implement audits and analysis. This multi-pronged approach involves leveraging existing accounting software solutions, utilizing blockchain analytics tools, and fostering collaboration for innovation.

Sales Taxes

While the primary focus of this report is on the federal income tax treatment of cryptocurrency, it's important to acknowledge the potential sales tax implications associated with NFTs (Non-Fungible Tokens) and other on-chain transactions, depending on specific circumstances and state regulations.

Many states currently impose sales tax on digital products and services, including downloadable software, e-books, and online subscriptions. The application of sales tax to NFTs and other on-chain transactions depends on how the state classifies these assets. The classification of NFTs for sales tax purposes varies by state, creating a complex landscape.

Some states, like Washington, have taken a proactive approach by issuing guidance specifically addressing NFTs. Washington considers NFTs to be digital assets associated with retail sales, subjecting them to the state's sales tax in certain circumstances. This includes NFTs linked to downloadable content, artwork, or other transferable goods or services. While Washington is a notable example, other states may also be grappling with the tax treatment of NFTs.

States that already impose sales tax on digital products may be more likely to extend this tax to NFTs. There are currently over 30 states that currently impose sales taxes on digital products such as music or e-books. NFT sellers may currently be liable for sales tax in these states based on this existing guidance but this is unclear and should be discussed directly with your tax advisor.

We've seen several states including Washington, Minnesota, Michigan and Pennsylvania take steps in clarifying when sales tax applies to digital assets and NFTs. These updates are interpretations of existing laws that could be applied both retroactively and prospectively. Like Washington, the specific circumstances surrounding an NFT transaction can influence its sales tax treatment in other states. Some factors to consider include:

Underlying Utility: If an NFT grants access to exclusive content, membership benefits, or other utilities, it may subject to sales tax based on the underlying utility.
Physical Goods Connection: If an NFT is tied to the receipt of a physical good, sales tax would likely apply to the total transaction value, including both the NFT and the physical good.

Sales tax may also apply to other on-chain transactions depending on their nature. For instance, the purchase of a ticket to an event using cryptocurrency could be subject to sales tax in certain jurisdictions.

While federal tax treatment for cryptocurrency is a central focus, taxpayers should also be mindful of potential state and local sales tax implications associated with NFTs and other on-chain transactions.

Desired Regulatory Changes

The landscape of cryptocurrency taxation is constantly evolving, with federal and state authorities grappling with the unique challenges posed by this new asset class. The Internal Revenue Service (IRS) and various state governments are actively developing and refining regulations to address the taxation of cryptocurrency activities.

New guidance, pronouncements, and enforcement actions are likely to emerge as the IRS gains a deeper understanding of the cryptocurrency ecosystem. Taxpayers and professionals must stay informed about these developments to ensure compliance with the latest regulations.

One potential change that could benefit both taxpayers and the government is the implementation of a de minimis threshold for cryptocurrency spending. This threshold would exempt small-dollar cryptocurrency transactions from taxation, aiming to:

Promote Crypto Use: A de minimis threshold could encourage broader adoption of cryptocurrency for everyday purchases by reducing the administrative burden associated with tracking and reporting micro-transactions.
Reduce Taxpayer Burden: For taxpayers who engage in frequent, low-value crypto transactions, a de minimis threshold would minimize the time and effort required for tax reporting purposes.
Alleviate IRS Burden: The IRS could benefit from a streamlined approach to micro-transactions, allowing them to focus on larger, more complex crypto tax issues.

Determining the appropriate de minimis threshold would require careful consideration. It should be high enough to be meaningful for taxpayers but low enough to prevent abuse of the exemption for high-volume, low-value transactions.

Additionally, I would like to see further clarification from the IRS on several transaction types, as their complexity and evolving nature warrant more explicit guidance to ensure compliance and understanding. This includes wrapping and unwrapping, liquidity provisions, consensus layers, liquid staking and lending with an obligation to return identical assets.

Crypto Tax Mistakes To Avoid

Cryptocurrency taxes and accounting are highly complex, with over 90% of cryptocurrency portfolios and tax returns reviewed by Camuso CPA containing errors, incorrect tax interpretations, or missed opportunities. Through consultations with hundreds of new cryptocurrency investors and businesses each year, common mistakes have been identified that can cost significant money and time.

Many crypto investors mistakenly believe they can avoid reporting or underreporting their cryptocurrency transactions. Despite the pseudonymity of DeFi and NFTs, the IRS and other authorities have sophisticated methods to trace transactions and associate them with taxpayers. The blockchain's immutable and public nature means that the IRS can use centralized exchange reports, international partnerships, and blockchain analysis software to track down unreported or underreported activities. Investors and businesses attempting to evade taxes by not reporting crypto transactions are prime targets for IRS audits.

Each market cycle in the crypto markets leads to many taxpayers inadvertently increasing their tax liabilities by failing to protect their tax payments from cryptocurrency volatility. This error can bankrupt businesses or decimate an investor's portfolio. When generating income or capital gains from cryptocurrency, it's crucial to immediately convert enough of the proceeds into USD or stablecoins to cover the anticipated tax liability. For example, if a company earns in ETH when ETH, it should convert its estimated tax liability to USD to cover the tax liability. If ETH's value drops significantly before the tax payment, the company would otherwise have to liquidate more ETH to cover the same tax amount.

Accurate documentation is key in tax reporting, as errors can result in significant tax penalties. It's crucial to maintain thorough records of all transactions, including accurate cost basis calculations. Investors and businesses should save their historical trade activity from all exchanges and wallets at least quarterly to avoid retrieval issues at year-end. Many taxpayers fail to track their cost basis properly, leading to compliance issues and higher taxes.

Many investors establish entity structures like LLCs, Partnerships, and S-Corporations without proper tax planning with an experienced crypto CPA. This can lead to significant tax issues and compliance problems, resulting in overpaying taxes. Proper tax planning is critical even when it makes sense to form an entity, as mismanagement can still lead to significant issues. Investors often mistakenly trade company crypto assets under personal exchanges or wallets, creating accounting and tax challenges. Separating personal and business transactions manually is cumbersome and may lead to incorrect tax reporting.

It's essential to avoid commingling personal and business funds. Set up personal exchange accounts using your social security number and separate business accounts using your employer identification number. Similarly, use dedicated wallets for personal and business use. Additionally, avoid trading cryptocurrency on behalf of family or friends, as it complicates accounting and tax reporting, potentially leading to overpaying taxes and significant compliance issues.

In summary, understanding and avoiding these common mistakes can save cryptocurrency investors from significant financial and compliance pitfalls. Proper tax planning, accurate record-keeping, and consulting with experienced crypto CPAs are crucial steps for effective and compliant cryptocurrency investing.

The tax treatment of crypto assets in the US continues to evolve as the market matures, reach out to Camuso CPA at Patrick.camuso@camusocpa.com to find out more!

Contact: Patrick.camuso@camusocpa.com

Knowledge sharing from Industry Experts

Elven Research - Insights into crypto assets accounting and fair value measurement

An online search shows that Aux Listed DigitalX and Canada Listed Cypherpunk Holdings Inc measure the fair value of their crypto assets using coin market cap pricing while US listed Coinbase uses coinbase pricing. This article shares Elven Research insights into crypto assets accounting and fair value measurement analysis. Elven is always here to provide the best crypto accounting solution and financial institutions are able to choose their own fair value data source and cost basis.

2023 Annual Report

DigitalX Limited
Notes to the financial statements
30 June 2023

Note 12. Digital assets (continued)

Digital assets (including Bitcoin inventory) is measured at fair value using the quoted price in United States dollars on from a number of different sources with the primary being Coin Market Cap (www.coinmarketcap.com) at closing Coordinated Universal Time. Management considers this fair value to be a Level 1 input under the AASB 13 Fair Value Measurement fair value hierarchy as the price on the quoted price (unadjusted) in an active market for identical assets.

Management uses a number of exchanges including Binance, Bitgo, Independent Reserve and others in order to provide the consolidated entity with appropriate size and liquidity to provide reliable evidence of fair value for the size and volume of transactions that are reasonably contemplated by the consolidated entity.

[DigitalX 2023 Annual Report]

The Company exercised significant due diligence and judgement and determined that this presence and availability of this market was the most advantageous market and utilized the pricing available in the market as an estimate of the fair value of the investment. In addition, The Company's cryptocurrencies, convertible loan, and assets held as collateral are classified as Level 2 determined by taking the price from www.coinmarketcap.com as of 24:00 UTC.

[Cypherpunk INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS]

(1) Cost amounts shown are net of impairment recognized.
(2) The fair value of crypto assets held is the fair value of assets recorded at cost plus assets recorded at fair value and is based on quoted market prices for one unit of each crypto asset reported on our platform at 11:59 pm Coordinated Universal Time (UTC) on the last day of the respective period multiplied by the quantity of each crypto asset held.
(3) During the fourth quarter of 2022, we entered into futures contracts to hedge our price exposure on crypto assets held as investments. These contracts were closed out during the first quarter of 2023. As of December 31, 2022, the cost and fair value amounts for Bitcoin were $89.9 million and $85.8 million, respectively, and the cost and fair value amounts for Ethereum were $43.7 million and $50.8 million, respectively.

[Coinbase Form 10-K]

1. Overview of crypto assets accounting policy

TL;DR :
US GAAP - FV (Intangible Asset)
IFRS - FV or Cost (Inventory), FV (Intangible Asset)

US GAAP

In December 2023, the FASB issued guidance requiring all entities holding crypto assets to subsequently measure those in-scope crypto assets at fair value, with the remeasurement recorded in net income. Although all calendar year-end entities with holdings in crypto assets are required to adopt the new standard in 2025, many US listed entity with crypto exposure have early adopted the new standard.

IFRS

The IFRS IC concluded that IAS 2, 'Inventories', applies to such assets where they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38, 'Intangible Assets', to holdings of cryptocurrencies. If determined that Inventory accounting is appropriate, the cryptocurrency can be measured at fair value less cost to sell, with changes in fair value recognised in profit or loss. For Intangible Assets, with an active market, cryptocurrencies can be measured at fair value less any impairment. Movements above cost is in "Other Comprehensive Income" while movements below cost is in "Profit and Loss".

2. Fair Value Measurement analysis

TL;DR :
quoted prices in active markets and conclusion requires professional judgement

IFRS 13 - Fair Value Measurement

IFRS 13, 'Fair Value Measurement', defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", and it sets out a framework for determining fair values under IFRS.

Fair values are divided into a three-level fair value hierarchy, based on the lowest level of significant inputs used in valuation models, as follows:

• Level 1: quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

• Level 2: observable inputs other than level 1 inputs; and
• Level 3: unobservable inputs.

Determining the fair value of cryptographic assets is complex due to rapidly evolving markets, high price volatility, and 24/7 market operations. The timing of valuation (e.g., 11:59 PM or close of business) is crucial, especially for entities with subsidiaries in different time zones. This valuation time could be a significant accounting policy and must be disclosed in the financial statement notes.

To determine the fair value of a cryptographic asset, the first step is to establish if an active market exists on the measurement date, as defined by IFRS 13. This involves assessing the frequency and volume of transactions. Metrics like active trading days and the average daily turnover ratio can be considered. However, IFRS 13 does not specify exact thresholds for these metrics, so professional judgment is required.

When multiple active markets exist for a cryptographic asset, IFRS 13 requires identifying the principal market, defined as the one with the highest volume and activity accessible to the entity. If no clear principal market is evident, the most advantageous market with the highest activity is used. An exhaustive market search is not needed; the default is the market where the entity usually transacts. Pricing must be based on orderly transactions per IFRS 13 guidelines.

Two issues in determining an active market for cryptographic assets are:

I. Significant price fluctuations between markets can result in differences between the principal market price and the actual price received, causing gains or losses in a fair value model. Such differences do not indicate the absence of an active market.

Ii. Cryptographic assets backed by fiat currency (e.g., tokens representing US$1) are treated the same as other cryptographic assets in determining active markets, as they are not considered foreign or functional currency under IAS 21.

3. Elven (Professional Crypto Accounting Software)

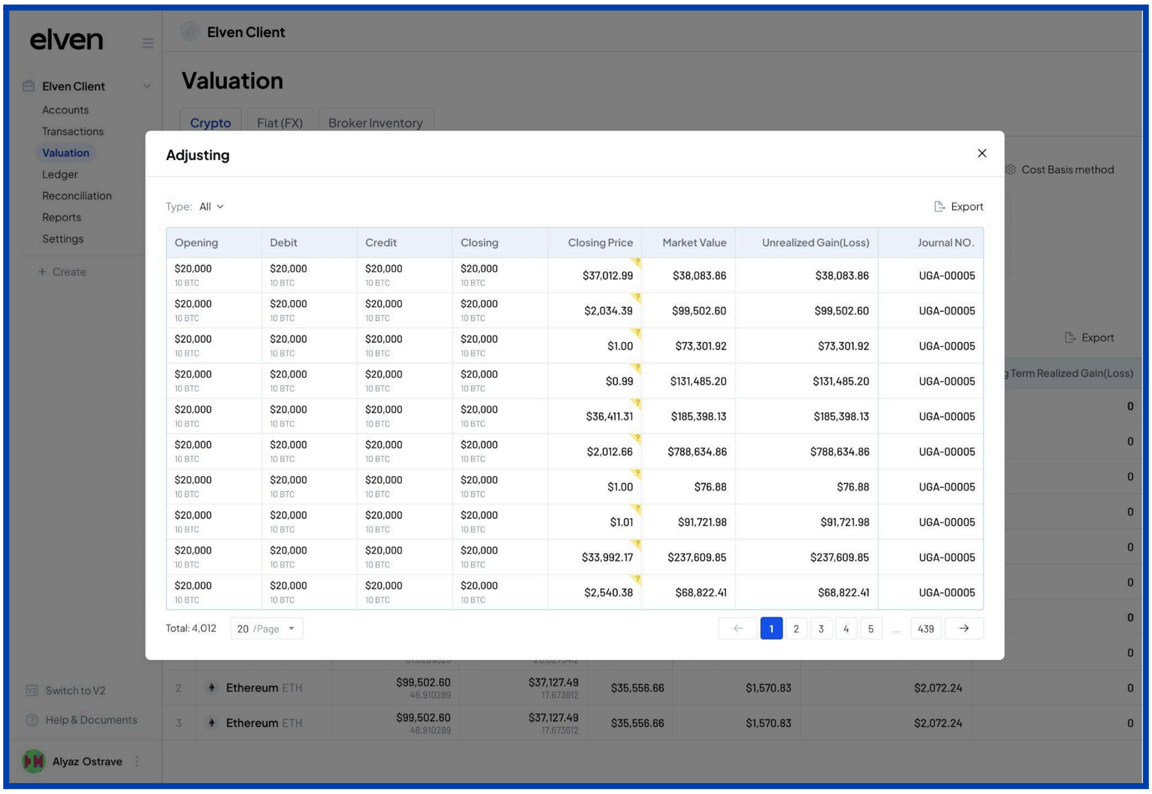
TL;DR : Financial Institutions are able to choose their own fair value data source and cost basis

Elven is a professional crypto accounting software designed for OTC, payment, exchanges, and Web3 projects, facilitating regulatory compliance, audit readiness, and accounting automation. Elven has received SOC 2 Type 1 & Type 2 and SOC 1 Type 2 audit reports from Insight Assurance, we are firmly committed and invested in data security and information privacy with our clients.

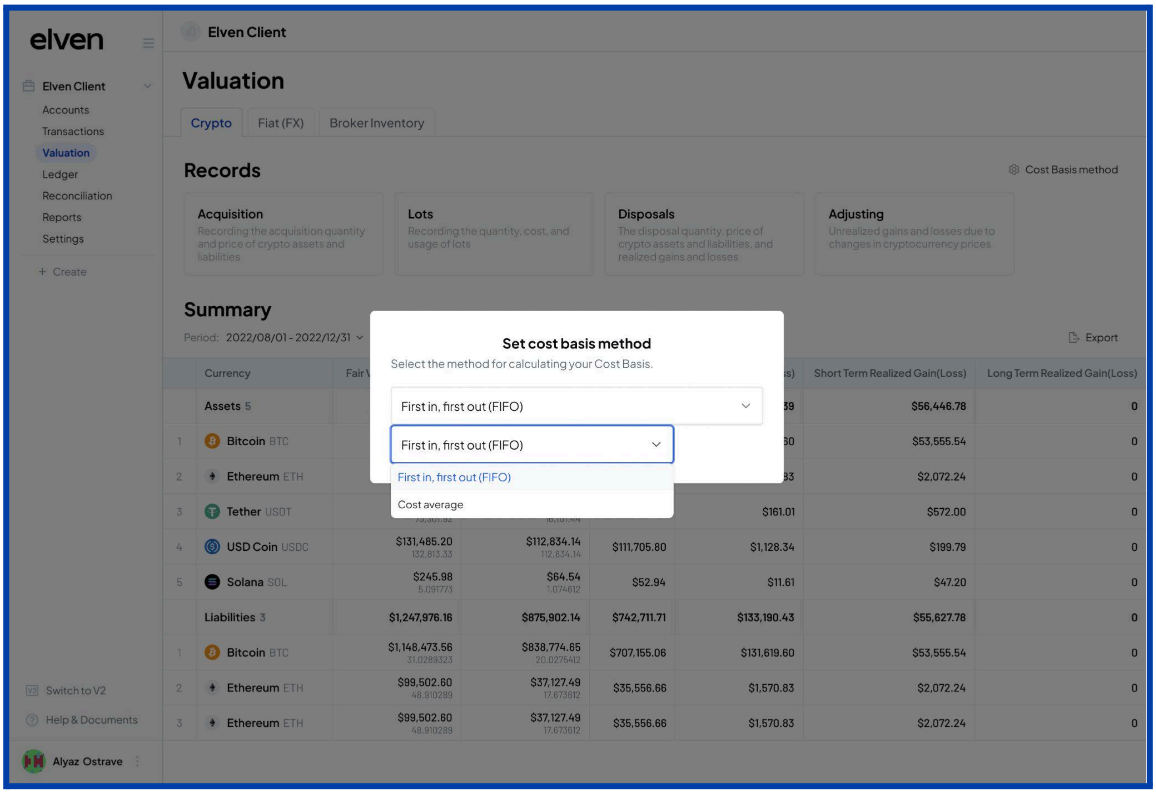
Trusted by more than 800 industry-leading enterprises in the Web3 sphere, including Hashkey and Coinhako, Elven provides comprehensive solutions such as integrated fiat and crypto accounting, streamlined technical support, 24/7 advisory assistance, and SOC2 audited security.

Understanding the technical complexities of Fair value measurement, we have designed Elven with the highest standards and allow users to choose their own fair value data source and cost basis if required. Elven is always here to provide the best crypto accounting solution.

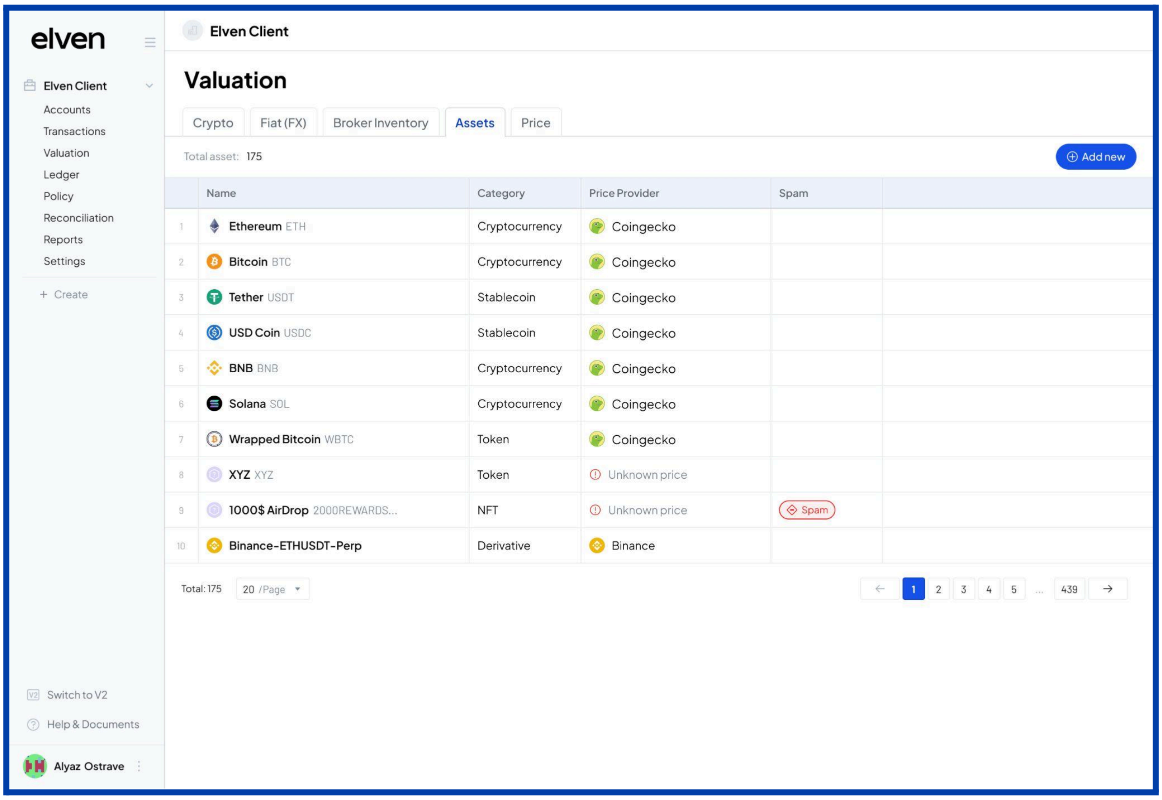
From specific identification / FIFO / LIFO / Average Cost, users can choose their cost basis and calculate their unrealized gain / loss accurately. This will aid in both financial reporting and tax filing.



Screenshot showing that Unrealized Gain/ (Loss) can be calculated accurately in Elven



Screenshot showing that cost basis can be customised in Elven



Screenshot showing that price provider can be customised and chosen in Elven

Contact Elven now for a free demo at hi@elven.com

Regulation of Stablecoins: Navigating the Future of Digital Finance

Introduction

Stablecoins have emerged as a crucial element in the cryptocurrency ecosystem, offering a bridge between traditional financial systems and the volatile world of digital assets. Pegged to stable assets like fiat currencies, stablecoins aim to provide price stability, making them an attractive option for investors and users alike. However, this unique positioning has also brought them under the scrutiny of regulators worldwide. This article delves into the current regulatory landscape for stablecoins, exploring recent government actions, legal implications for issuers and users, and the potential future of stablecoin regulation.

Recent Government Actions and Proposals

Governments and regulatory bodies globally have begun to focus on stablecoins due to their growing popularity and potential impact on financial stability. In the United States, the President's Working Group on Financial Markets issued a report highlighting the need for comprehensive regulatory frameworks to manage the risks associated with stablecoins. The Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) have both expressed interest in overseeing stablecoin operations, particularly those that may be classified as securities or commodities.

In the European Union, the European Commission proposed the Markets in Crypto-Assets (MiCA) regulation, which includes specific provisions for stablecoins, referred to as "asset-referenced tokens", while the President's Working Group on Financial Markets in the United States recommended that stablecoins should be issued only by insured depository institutions to ensure robust regulatory oversight and consumer protection. MiCA aims to ensure consumer protection and financial stability while fostering innovation in the crypto space. Meanwhile, China has taken a stringent stance on cryptocurrencies, including stablecoins. The People's Bank of China (PBOC) has emphasised that stablecoins pegged to the Chinese yuan or other fiat currencies should be treated as traditional financial instruments and subject to existing regulations. Similarly, the Financial Services Agency (FSA) in Japan has proposed regulations requiring stablecoin issuers to be registered as banks or fund transfer service providers, ensuring robust oversight and consumer protection.

In Singapore, the Monetary Authority of Singapore (MAS) has been at the forefront of regulating the digital payment token space. Recently, MAS granted full approval to Paxos to offer digital payment token services as a Major Payments Institution. This approval allows Paxos to issue stablecoins in compliance with MAS's forthcoming stablecoin framework. This framework emphasises rigorous regulatory standards to ensure consumer protection and financial stability, setting a benchmark for other jurisdictions.

Paxos's approval in Singapore is significant because it allows them to partner with traditional financial institutions like DBS Bank. DBS Bank, Southeast Asia's largest bank by assets, will manage cash reserves and custody for Paxos's stablecoins. This partnership reflects the broader trend of collaboration between fintech companies and traditional financial institutions to enhance the reliability and acceptance of stablecoins. It also aligns with the robust standards expected by both regulators and consumers, ensuring the stablecoins are backed by reliable reserves and compliant with stringent regulatory requirements. Singapore's proactive regulatory approach highlights its commitment to fostering innovation while maintaining financial stability. The MAS's forward-looking regulatory framework is designed to accommodate the evolving digital asset landscape, providing clarity and confidence to market participants. The approval of Paxos under this framework exemplifies how regulatory authorities can balance the need for innovation with the imperative of maintaining financial system integrity.

The MAS's stablecoin framework aims to address several key issues: ensuring consumer protection by safeguarding their interests, implementing standards that prevent stablecoins from becoming a source of systemic risk, requiring compliance with Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations, and mandating robust operational frameworks to ensure the continuous and secure issuance and redemption of stablecoins.

Singapore's proactive stance, as exemplified by MAS's approval of Paxos, serves as a model for other jurisdictions aiming to balance innovation with robust regulatory oversight. This regulatory clarity and confidence are essential for the sustainable growth of the stablecoin ecosystem globally.

Legal Implications for Issuers and Users

The evolving regulatory landscape poses several legal challenges and implications for stablecoin issuers and users. Issuers must navigate complex regulatory environments, ensuring compliance with various national and international laws. This includes obtaining necessary licences, adhering to anti-money laundering (AML) and know-your-customer (KYC) requirements, and ensuring robust risk management practices. Regulatory frameworks aim to safeguard consumers by ensuring that stablecoin issuers maintain adequate reserves to back their tokens. This could involve regular audits, transparency in reserve management, and stringent operational standards.

Regulators are keen on preventing market manipulation and ensuring fair trading practices within the stablecoin ecosystem. Issuers and exchanges may be subject to surveillance and reporting obligations to maintain market integrity. The global nature of stablecoins necessitates cooperation between international regulatory bodies. Issuers must be mindful of the legal implications of cross-border transactions and ensure compliance with relevant jurisdictions.

Case Studies of Major Stablecoin Projects and Regulatory Challenges

Tether (USDT) has faced multiple regulatory challenges, including allegations of misrepresenting its reserves. Regulatory scrutiny has led to increased transparency and periodic audits to reassure investors of its stability. Facebook's stablecoin project, initially known as Libra and now rebranded as Diem, faced significant regulatory pushback globally, leading to a rebranding and restructuring of the initiative. Diem's journey highlights the importance of engaging with regulators and addressing their concerns proactively. On the other hand, Circle's USD Coin (USDC) has positioned itself as a transparent and compliant stablecoin, partnering with regulators and financial institutions. USDC's approach underscores the importance of regulatory cooperation in building trust and credibility.

Future of Stablecoin Regulation

The future of stablecoin regulation will likely involve a blend of stringent oversight and fostering innovation. The development of Central Bank Digital Currencies (CBDCs) by various central banks may influence the regulatory landscape for stablecoins, potentially leading to harmonised standards and frameworks. Enhanced cooperation between international regulatory bodies will be crucial in addressing the cross-border nature of stablecoins and ensuring a cohesive regulatory approach. As stablecoin technology evolves, regulators will need to adapt their frameworks to address emerging risks and opportunities, ensuring that innovation is not stifled.

Conclusion

Stablecoins represent a significant innovation in the financial world, offering a stable and efficient medium of exchange within the digital economy. However, their growing influence necessitates robust regulatory oversight to ensure financial stability, consumer protection, and market integrity. As governments and regulatory bodies continue to refine their approaches, stablecoin issuers and users must stay informed and proactive in navigating this dynamic regulatory landscape. The future of stablecoins will depend on finding the right balance between innovation and regulation, fostering a secure and vibrant ecosystem for all stakeholders.

The crypto legal regulations continue to evolve as the stablecoins market matures, reach out to LDU at hello@lduasia.com to find out more!

Contact: hello@lduasia.com

Req Finance: Crypto Payments and Invoicing Made Easy

Background: Addressing the web3 financial challenges

In the recent Web3 industry, many companies have faced challenges managing their crypto payments and invoicing. Traditional spend management tools don't offer solutions to label invoices in cryptocurrencies or convert invoices labeled in Fiat to pay in crypto. Those challenges prevent businesses with crypto treasury from using their funds to pay invoices, to have compliant receipts like in traditional finance, and to have accurate financial records.

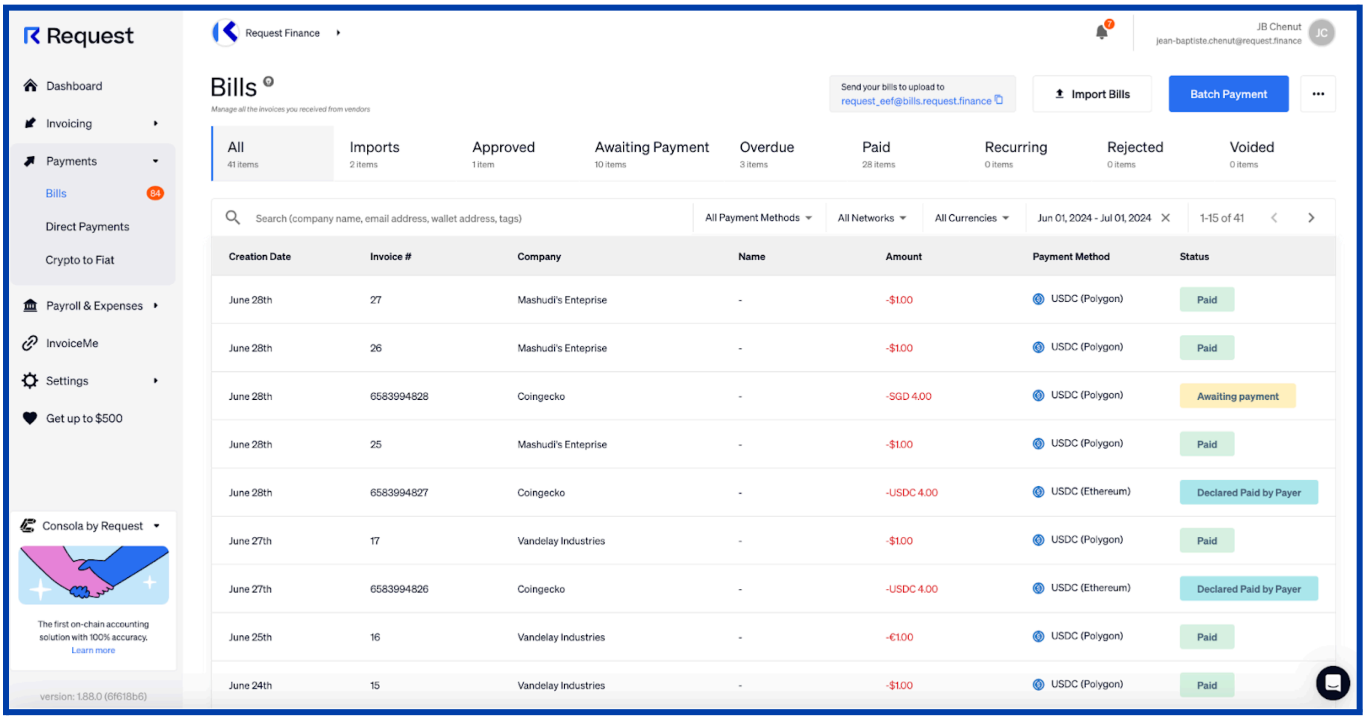
Solution: Request Finance

Request Finance is designed to tackle these challenges by simplifying and automating the entire crypto invoicing process, making it easier for businesses to handle cryptocurrency payments. The platform offers a user-friendly interface for creating and managing invoices, processing payroll and expenses, all while ensuring compliance with invoices converted between crypto and fiat currencies.

Blockchain technology goes further: by paying an invoice created on Request Finance in crypto, reconciliation is automatically done between the invoice and the payment. You no longer need to reconcile manually in your accounting system.

Besides, Request Finance allows batch payment in multiple currencies, including Fiat currencies, thanks to the crypto-to-Fiat feature.

By integrating with multiple crypto wallets, Request Finance provides a seamless and secure solution for web3 businesses.



Benefits: improve your financial operations

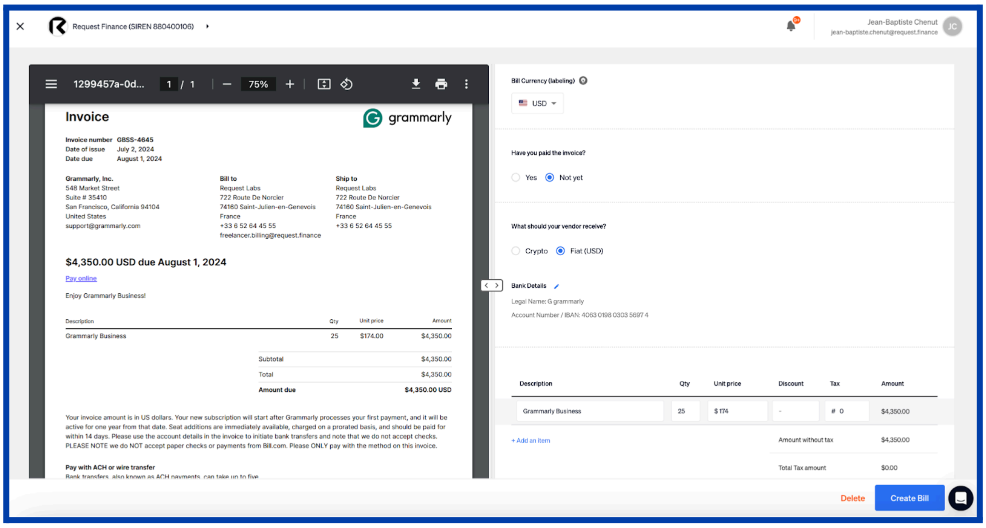
Request Finance offers several key benefits that can transform how web3 businesses manage their finances and web2 companies that have already adopted cryptocurrencies.

- Manage cash flow easily with one platform: Businesses can oversee all their financial operations from one platform. This includes accounts payable, accounts receivable, payroll, expenses, and other direct payments. It ensures that the finance team has a clear view of their financial health.

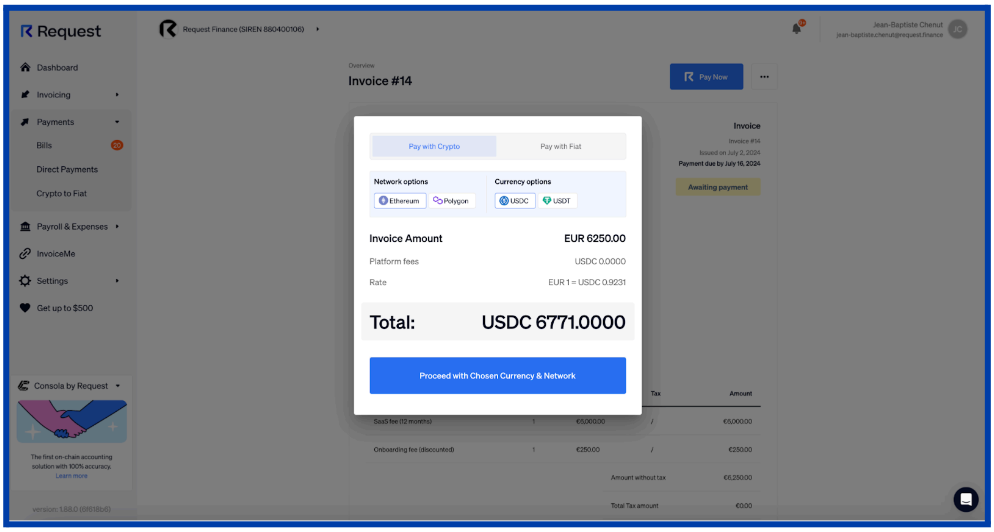
- Cross-border payments in crypto: The platform facilitates cross-border transactions, allowing businesses to send and receive payment in cryptocurrencies without the usual issues of traditional banking systems.

- Crypto to fiat payments: Request Finance bridges the gap between the crypto and fiat worlds. Teams can easily import fiat bills and pay in cryptocurrencies with an automated offramp to multiple recipients made by Request Finance.

Bill import feature



Crypto to Fiat feature



Request Finance provides a robust and user-friendly solution for all businesses with crypto treasury. By streamlining these processes, businesses can focus more on their core operations and less on financial administration, with smoother and more efficient financial management thanks to cryptocurrencies.

The crypto payments landscape continue to evolve as the market matures, reach out to Request Finance at @christophelass (TG) to find out more!

Contact: @christophelass (Telegram)

DeFi Insurance versus Traditional Insurance For Crypto

DeFi insurance is disrupting the insurance industry, emerging as an innovative alternative to traditional insurance for digital asset companies looking to mitigate risk. We compare the two, looking at the pros and cons of each.

DeFi explained

DeFi, or Decentralised Finance, is a rapidly growing ecosystem of financial applications and services built on blockchain technology. DeFi platforms harness this technology to produce an incorruptible ledger of economic transactions which exist as a shared database on the computers of millions of people simultaneously. This decentralisation reduces the reliance on single points of failure and enhances security.

DeFi protocols can interact with each other enabling different DeFi services to be combined to create complex financial products and services. DeFi has succeeded in recreating traditional financial services, such as lending, borrowing, trading, and investing, in a decentralised manner, eliminating the need for intermediaries like banks and financial institutions.

DeFi is also being used in the insurance industry as an alternative to traditional insurance models.

The traditional insurance model

The legacy insurance model that has served as the norm for decades involves risk pooling. Customers mitigate the financial risk of certain events by paying premiums to an insurance company. The premiums collected by the insurance company are pooled and insurers calculate that the amount they collect from many individual policyholders with a low risk of incurring losses will exceed the amount they will have to pay out in claims.

This process involves the assessment of risk and setting of premiums. Claims are assessed and handled by human experts. Risk is pooled through a centralised entity and assessed by actuaries. Claims adjusters are used to verify losses and determine the payout a policyholder will receive. It can be expensive and time-consuming, but this model has endured for decades, and is only now being threatened by a new pretender.

The advantages of traditional insurance

Traditional insurance enjoys certain advantages that DeFi insurance cannot yet boast. These include:

- An established regulatory structure – oversight from government and regulatory bodies guarantees that insurers adhere to established norms and safeguards the welfare of policyholders. Consumers understand this compliance framework and trust that they are being protected.
- Longevity and financial stability – Individuals and businesses are reassured by the track record of established conventional insurers who they assume possess the financial reserves to cover claims and meet their contractual commitments. They trust these providers because of their long history.
- Familiarity bias – Consumers understand the traditional insurance landscape and how it works. There is a certain familiarity bias in the way policies are issued and claims are dealt with under the conventional model.

What is DeFi insurance?

Blockchain technology is revolutionising the traditional insurance model with the emergence of DeFi insurance, a decentralised model of insurance that many digital asset companies are turning to in order to mitigate risks including hacks, theft, scams, mistakes or natural disasters. With DeFi insurance, decentralised platforms use self-executing smart contracts to automate and streamline the insurance process without compromising security. Predefined codes are written into the policies and executed transparently on the blockchain.

The code is the policy and also manages the policy. This eliminates the need for intermediaries and centralised authorities such as claims adjusters.

Nexus Mutual is an example of a one such firm that provides discretionary mutual coverage for various DeFi projects. Essentially their platform is an automated version of a very old structure where members share risks together. Nexus does this by allowing members to decide how risks should be priced, along with how claim payments should be made.

The Benefits of DeFi insurance

Although DeFi insurance doesn't (yet) have the proven track record and consumer trust that traditional insurance enjoys, it does offer numerous benefits:

- Decentralisation and transparency – Smart contracts operate on decentralised blockchain networks. No single entity controls them, and they are visible to all on the chain, guaranteeing transparency, security, and immutability of contract execution.
- Democratisation – All that is needed to access DeFi insurance platforms is an internet connection. Anyone can take out relevant cover irrespective of their location.
- Lower costs – Middlemen such as underwriters and claims adjusters become superfluous to the process. Cutting out these intermediaries simplifies the insurance process and lowers costs.

Of course, DeFi is not infallible. There are risks, which include smart contract vulnerabilities, a lack of regulation, and potential for hacking, theft, loss etc.

Insuring digital assets: DeFi insurance versus traditional insurance

For digital asset companies there are several compelling reasons to favour DeFi insurance over traditional insurance.

Conventional insurance is ill-suited to safeguarding digital assets. Traditional insurers are stringently regulated and must carry out strict KYC checks. These may not be possible for many digital assets that are primarily stored in anonymous wallets.

Secondly, traditional insurance relies on historical data and a deep understanding of risk-influencing factors for risk assessment. Blockchain technology emerged in the early 1990s and only entered the mainstream after the emergence of Bitcoin in 2008. The lack of historical data related to digital assets makes it very difficult to develop statistically significant pricing models. In addition, traditional insurers lack the expertise to assess the technical complexity of the risks associated with digital assets.

Another challenge for traditional insurers is that digital asset risks often impact a large number of individuals simultaneously, unlike other business risks such as fire, injury or professional liability. This creates difficulties in efficiently resolving individual claims.

Finally, there is an inherent misalignment between traditional insurance, which deals in fiat currency, and the digital asset ecosystem. This makes managing workflows effectively difficult for traditional insurers who lack the necessary systems to facilitate fiat-to-crypto conversions.

DeFi insurance for digital asset companies

DeFi insurance is still in the early stages of development and digital asset companies looking for effective risk mitigation currently have a limited choice. To date most of the focus has been on provide coverage for protocols rather than broader coverage for institutions but this is changing as the market matures and grows.

It has been estimated that only 1% of crypto investments are covered by insurance but with cryptocurrency hacks still on the rise – an estimated $3.1 billion was stolen in 2022 – it is foolhardy for digital asset companies not to protect against the risks.

Continuum is at the forefront of this nascent and rapidly evolving industry. We have been working with digital asset companies in Asia for over five years, helping many startups to find the right solution for their business. Whether you are a digital asset custodian, blockchain developer, miner or tokenisation platform, we can find appropriate solutions to protect your business and offer value to your clients. Whether this is with the traditional insurers or DeFi insurers or possibly a combination of both we will work with you to find the best solution.

Contact Us to discuss how we can assist on your journey to success in the brave new world of digital assets!

The crypto insurance landscape continues to evolve as the market matures, reach out to Continuum at rob@continuuminsure.com to find out more!

Contact: rob@continuuminsure.com

Cost Basis Methods for Crypto Taxation

Umar Mallam Hassam

Umar, a Chartered Accountant and previous External Auditor at Deloitte & BDO, is the creator of The Accountant Quits.

By educating accountants about crypto accounting, Umar aims to help accountants upskill themselves for new career opportunities in Web3.

The Accountant Quits

THE ACCOUNTANT QUITS

The Accountant Quits is a movement to help accountants learn crypto accounting so they can be hired at companies using digital assets.

It launched the Crypto Accounting Academy , the world's first comprehensive course and certification program to help accountants learn crypto accounting. It's composed of 7 modules to provide accountants with the foundation of having the practical knowledge to run the operations and bookkeeping transactions on the blockchain.

With The Accountant Quits, you will meet a community of global like minded accountants working for the acceleration of cryptocurrencies.

Author: Umar Mallam Hassam, Founder of The Accountant Quits

Overview

Tracking the cost basis of your crypto transactions is the gateway into crypto taxation, as it will allow you to have an understanding of the 'capital gains tax' and 'realized gains/losses' (or capital gains/losses) every time you dispose (i.e sell/trade/swap) a crypto asset.

If your business is contemplating or already using cryptocurrencies to run its operations,you will need to have an understanding of the most popular cost basis methods used and its implications on your financial reporting.

Content

- Crypto Taxes 101
- Introduction to Crypto Cost Basis Methods - FIFO, LIFO, WAC, HIFO
- Comparing Cost Basis Methods in a Bull Market v/s Bear Market
- How to Choose the Right Cost Basis Method

Crypto Taxes 101

Whenever you dispose of a crypto asset, i.e sell, trade, swap, there will be a difference between the current market value of the asset and its cost price.

Definition: The cost price is known as the 'cost basis' and is the price you pay to acquire the crypto asset.

The gas fees incurred can either be expensed in the P&L or capitalized and included in the cost basis price. For example, if Bob & Alice LLC purchased ETH for $1,200 and incurred $10 gas fees, in the case of capitalizing gas fees, the cost basis of that transaction would be $1,210. Increasing your cost basis means that the capital gains will be lower.

The proceeds of the sale are how much you received for disposing of your crypto asset. Typically, this is the fair market value of your crypto-asset at the time of disposal, less the gas fees.

Definition: The capital gains or losses is the difference between the proceeds of sale and the cost basis of the crypto asset.

- If you sell your crypto for more than you paid, you'll have a capital gain, which is subject to capital gains tax.
- Conversely, if the value of your crypto has decreased since the purchase, you'll incur a capital loss, which can offset capital gains for the year, reducing your overall tax burden.

Capital gains or losses are only realized upon disposal of the digital asset (i.e if no disposal, no capital gains or losses are incurred)

Now what happens if your business is acquiring digital assets continuously and how to keep track of the cost basis? In this case, it's recommended to categorize each purchase into a lot.

Definition: A lot refers to the individual purchase of digital assets. Each time you purchase new digital assets, it creates a new lot with its own cost basis and purchase date.

Cost basis = Purchase price + Gas fees

Capital gains (or losses) = Proceeds – Cost basis

Introduction to Crypto Cost Basis Methods - FIFO, LIFO, WAC, HIFO

There are different cost basis methods—FIFO, LIFO, WAC, and HIFO—and depending on the method of choice, the financial outcomes will be different. The cost basis method essentially determines the order in which you dispose of your digital assets.
Here, we'll be comparing the purchase and disposal of digital assets during a bull market v/s bear market.

📈Bull Market	📉Bear Market
• 8/1/2023: 10 ETH @ $2,022 each (Total Cost: $20,220) • 8/15/2023: 5 ETH @ $2,368.80 each (Total Cost: $11,844) • 8/31/2023: 25 ETH @ $2,488.96 each (Total Cost: $62,224) • 9/28/2023: 32 ETH @ $2,851.72 each (Total Cost: $91,255) • 10/31/2023: 18 ETH @ $3,077.78 each (Total Cost: $55,250) • 11/5/2023: 7 ETH @ $3,364.29 each (Total Cost: $23,550) The total cost basis was $264,343.00, and total ETH tokens purchased was 97.	• 8/1/2023: 10 ETH @ $3124 each (Total Cost: $31,240) • 8/15/2023: 5 ETH @ $2976 each (Total Cost: $14,880) • 8/31/2023: 25 ETH @ $2591.20 each (Total Cost: $64,780) • 9/28/2023: 32 ETH @ $2119.375 each (Total Cost: $67,820) • 10/31/2023: 18 ETH @ $1975 each (Total Cost: $35,550) • 11/5/2023: 7 ETH @ $1935.71 each (Total Cost: $13,550) The total cost basis was $227,820.00, and total ETH tokens purchased was 97.

Note: The ETH prices do not reflect actual historical market prices.

1️⃣FIFO (First In, First Out) Explained

FIFO is one of the most commonly used accounting methods. It assumes that the first assets you purchase are the first ones sold.
This method is straightforward and often results in higher capital gains in a bull market since older, cheaper assets are sold first.

📈**Bull Market**

In our example, we disposed ETH 52 tokens at a market price of $3,400.00
Total Cost Basis Disposed = $20,220 (ETH 10) + $11,844 (ETH 5) + $62,224 (ETH 35) + $34,220.64 (Remaining ETH12/ Total ETH32 * $91,255.00) = $128,508.63

Realized Gain = Proceeds of $176,800.00 - Total Cost Basis Disposed $128,508.63 = $48,291.38

📉**Bear Market**
In our example, we disposed ETH 52 tokens at a market price of $1,830.00

Total Cost Basis Disposed = $31,240 (ETH 10) + $14,880 (ETH 5) + $64,780 (ETH 25) + $25,432.50 (Remaining ETH12/Total ETH32 * $67,820.00) = $136,332.50

Realized (Loss) = Proceeds of $95,160.00 - Total Cost Basis Disposed $136,332.50 = ($41,172.50)

2️⃣LIFO (Last In, First Out) Explained

LIFO assumes that the most recently acquired assets are sold first. This method can reduce taxable income (i.e realized gain) during market downturns, since the newer, lower priced assets are sold first.

📈**Bull Market**
In our example, we disposed ETH 52 tokens at a market price of $3,400.00
Total Cost Basis Disposed = $23,550 (ETH 7) + $55,250 (ETH 18) + $76,996.41 (Remaining ETH27/Total ETH32 * $91,255.00) = $155,796.41

Realized Gain = Proceeds of $176,800.00 - Total Cost Basis Disposed $155,796.41 = $21,003.59
📉**Bear Market**
In our example, we disposed ETH 52 tokens at a market price of $1,830.00

Total Cost Basis Disposed = $13,550 (ETH 7) + $35,550 (ETH 18) + $57,223.13 (Remaining ETH 27/Total ETH32) = $106,323.13

Realized (Loss) = Proceeds of $95,160.00 - Total Cost Basis Disposed $106,323.13 = ($11,163.13)

3️⃣WAC (Weighted Average Cost) Explained

Weighted Averate Cost (WAC) averages the cost of all assets to determine the cost basis for sales. Here you add up the purchase price of all tokens of the same crypto asset and divide by the total number of tokens purchased. This method smooths out price fluctuations and simplifies record-keeping.
📈**Bull Market**
In our example, we disposed ETH 52 tokens at a market price of $3,400.00

The average cost per unit = $264,343.00 / ETH 97 = $2,725.19
Total Cost Basis Disposed = $141,709.65 ($2,725.19 * ETH 52)

Realized Gain = Proceeds of $176,800.00 - Total Cost Basis Disposed $141,709.65 = $35,090.35

📉**Bear Market**

In our example, we disposed ETH 52 tokens at a market price of $1,830.00

The average cost per unit = $227,820.00 / ETH 97 = $2,348.66
Total Cost Basis Disposed = $122,130.31 ($2,348.66 * ETH 52)

Realized (Loss) = Proceeds of $95,160.00 - Total Cost Basis Disposed $122,130.31 = ($26,970.31)

4️⃣HIFO (Highest In, First Out) Explained

HIFO prioritizes the sale of the highest-cost assets first. This strategy can minimize taxable gains in a rising market, providing potential tax advantages. HIFO is not explicitly allowed by tax authorities in many jurisdictions since it minimizes capital gains tax.

📈**Bull Market**

In our example, we disposed ETH 52 tokens at a market price of $3,400.00

Total Cost Basis Disposed = $31,240 (ETH 10) + $14,880 (ETH 5) + $64,780 (ETH 25) + $25,432.50 (Remaining ETH12/Total ETH32 * $67,820.00) = $136,332.50

Realized Gain = Proceeds of $176,800.00 - Total Cost Basis Disposed $155,796.41 = $21,003.59 (Same result as under LIFO Bull)

📉**Bear Market**

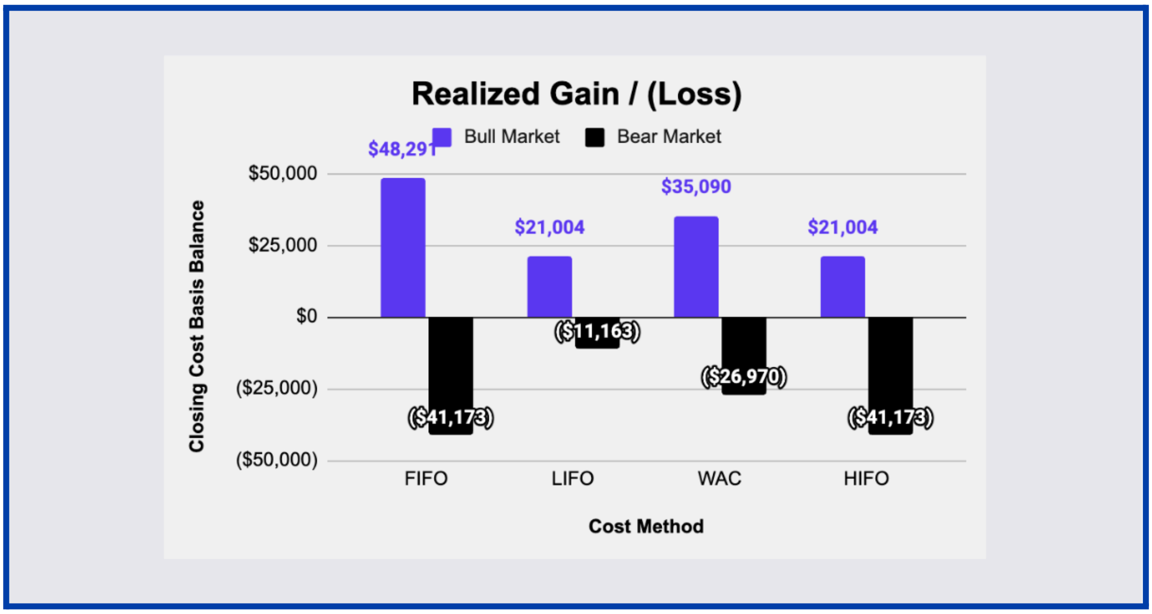
In our example, we disposed ETH 52 tokens at a market price of $1,830.00

Total Cost Basis Disposed = $23,550 + $55,250 + $76,996.41 = $155,796.41

Realized (Loss) = Proceeds of $95,160.00 - Total Cost Basis Disposed $136,332.50 = ($41,172.50) (Same result as under FIFO Bear)

Comparing Cost Basis Methods in a Bull Market v/s Bear Market

Below chart analyzes the differences in realized gain or loss in a bull market against a bear market, as per our above example.



📈Bull Market

- FIFO increases the realized gain by selling earlier and cheapest cost units first.
- LIFO and HIFO minimize the realized gain by selling last and higher cost units first.
- WAC provides a middle ground, balancing the gain between the extremes of FIFO and LIFO/HIFO.

📉Bear Market

- FIFO and HIFO resulted in the highest realized loss because the cost basis of the earliest and highest cost ETH purchases were used.
- LIFO resulted in the lowest realized loss because the cost basis of the most recent and lower cost ETH purchases were used.
- WAC again provides a middle ground, averaging out the costs and resulting in a moderate realized loss.

How to Choose the Right Cost Basis Method

Choosing the best cost basis method depends on your trading strategy, market conditions, and country specific tax regulations. Note that you're not allowed to change the accounting method at every reporting period, and if you do decide to change, you must do so retroactively. **Here are some tips:**

- **Market Conditions:**

In a bull market, LIFO or HIFO can reduce taxable gains. In a bear market, FIFO might be more beneficial as the initial purchase price is higher than current prices.

- **Regulatory Compliance:**

Ensure the method chosen is allowed in your jurisdiction. Most jurisdictions allow the FIFO method, including the US, Australia, Singapore, Switzerland, France and Germany.

- **Short-Term vs. Long-Term Gains**

If you hold the asset for more than a year, you may qualify for long-term capital gains tax rates, which are typically lower than short-term rates.

- **Use a crypto sub-ledger**

Allows to track digital asset transactions and automatically calculate the cost basis for various assets on multiple chains. Using sub-ledgers like Elven, you can compare and choose the preferred cost basis method based on what is most advantageous for you.

Whilst having an understanding of the cost basis for digital asset operations is important, it's only one area of running a business using crypto. If you want to learn more about navigating block explorers, using sub ledgers, treasury management, company formation, accounting, audit and token compensation, you can reach out to Umar or visit theaccountantquits.com

Contact: umar@theaccountantquits.com

Unlock Seamless Accounting for Web3 Businesses with Automa8e

General Information about Automa8e

Automa8e is a cutting-edge AI-powered platform designed to streamline financial processes and ensure compliance for modern businesses, including those in the Web3 space. Our solution offers comprehensive tools for efficient tax management, precise financial reporting, and regulatory compliance, tailored to the unique needs of Web3 enterprises.

How Automa8e Supports Web3 Businesses

1.Automated Tax Computation and Filing

For Web3 businesses navigating the complexities of crypto taxation, Automa8e simplifies the process. Our platform automatically computes and files taxes, including GST and other applicable obligations, ensuring compliance with Singapore's regulatory requirements.

2.Real-Time Financial Reporting

Stay ahead with our dynamic reporting dashboard. Automa8e provides real-time summaries of financial performance, including gains from digital tokens and operational revenue, enabling Web3 businesses to make informed decisions swiftly.

3.Efficient AML/CFT Compliance

Web3 enterprises must adhere to Anti-Money Laundering (AML) and Counter-Terrorism Financing (CFT) regulations. Automa8e automates KYC procedures, monitors bank transactions for suspicious activities, and ensures ongoing due diligence, helping businesses meet regulatory demands effortlessly.

4.Streamlined Nominee Data Management

Managing nominee directors and shareholders? Automa8e ensures accurate filing and compliance with ACRA's requirements, including maintaining registers and managing disclosures.

5. Adaptable to Evolving Regulations

The regulatory landscape for digital assets is constantly evolving. Automa8e is designed to adapt to these changes, ensuring that Web3 businesses remain compliant with the latest laws and guidelines.

Message from Our CEO

“At Automa8e, we understand the unique challenges faced by Web3 businesses in managing their financial operations and regulatory compliance. Our mission is to empower these innovative enterprises with cutting-edge tools that simplify complex processes and ensure seamless compliance.

As the Web3 industry continues to evolve, so do the regulatory requirements. Automa8e is committed to providing a dynamic and adaptable solution that keeps pace with these changes. We are dedicated to supporting Web3 businesses by offering a comprehensive platform that not only meets today’s needs but anticipates future demands.

Our goal is to allow Web3 entrepreneurs to focus on what they do best—driving innovation and growth—while we handle the intricacies of financial management and regulatory compliance. Together, we can navigate the complexities of the digital economy with confidence and ease.”

-David Lau, CEO of Automa8e

Automa8e is dedicated to being more than just a provider of cutting-edge accounting solutions; it aims to be a pivotal partner in navigating the complexities of the Web3 landscape. With a focus on innovation and compliance, Automa8e ensures that businesses can concentrate on their core activities while remaining confident in their financial and regulatory management. For those seeking to elevate their accounting practices and excel in the digital age, Automa8e offers the tools and expertise needed for success.

For more information or to request a demo, visit Automa8e’s website or contact us at David@automa8e.com.

Concluding Thoughts

In conclusion, Singapore, Hong Kong, Dubai, and Malta offer significant tax incentives, including the absence of capital gains tax, making them attractive jurisdictions for crypto entities considering expansion.

The number of jurisdictions complying with FATF regulations has increased by 20% annually, and the implementation of CARF in 2027 will enhance information collection. Therefore, entities should ensure transparency in tax reporting.

This report should serve as a continuous reference throughout the year for detailed tax information on the covered jurisdictions, as well as an overview of crypto accounting, cost methodologies, stablecoins, payments, AI accounting, and insurance.

The successful compilation of this report was a collaborative effort, and its completion would not have been possible without the valuable assistance of many contributors:

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