Australian Government
Australian Taxation Office

Tax treatment of crypto-currencies in Australia - specifically bitcoin

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Tax treatment of cryptocurrencies

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

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

If you are involved in acquiring or disposing of cryptocurrency, you need to be aware of the tax consequences. These vary depending on the nature of your circumstances. Everybody involved in acquiring or disposing of cryptocurrency needs to keep records in relation to their cryptocurrency transactions.

One example of cryptocurrency is Bitcoin. Our view is that Bitcoin is neither money nor Australian or foreign currency. Rather, it is property and is an asset for capital gains tax (CGT) purposes. Other cryptocurrencies that have the same characteristics as Bitcoin will also be assets for CGT purposes and will be treated similarly for tax purposes.

The guidance below is general in nature and focusses on the tax consequences for taxpayers transacting with cryptocurrencies. For example, statements about deductibility assume the ordinary conditions for a deduction are satisfied.

Find out about:

- Transacting with cryptocurrency

- Cryptocurrency as an investment
- Personal use assets
- Record keeping
- Carrying on a business
- Using cryptocurrency for business transactions
- Exchanging a cryptocurrency for another cryptocurrency
- Paying salary or wages in cryptocurrency
- Further information

See also:

- GST and digital currency
- SMSF investing in cryptocurrencies

Transacting with cryptocurrency

A CGT event occurs when you dispose of your cryptocurrency. Examples include when you sell, trade or exchange your cryptocurrency, convert it to a fiat currency like Australian dollars, or use it to obtain goods or services. If you make a capital gain on the disposal of a cryptocurrency, some or all of the gain may be taxed. Certain capital gains or losses that arise from the disposal of cryptocurrency that is a personal use asset may be disregarded.

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

Cryptocurrency as an investment

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

You will make a capital gain if the capital proceeds from the disposal of the cryptocurrency are more than its cost base

If you acquire cryptocurrency as an investment, you will not be entitled to the personal use asset exemption. However, if you held the cryptocurrency for 12 months or more, you may be entitled to the CGT discount.

If the capital proceeds from the disposal of the cryptocurrency are less than its cost base, you will make a capital loss. A capital loss can be used to reduce capital gains made in the same year or a later year. Net capital losses cannot be offset against other income.

See also:

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

Example: cryptocurrency investment

Terry has been a long term investor in shares and has a range of holdings in various public companies in a balanced portfolio of high and low risk investments.

Some of his holdings are income producing and some not, and he adjusts his portfolio frequently at the advice of his adviser.

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

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

Personal use asset

Some capital gains or losses that arise from the disposal of cryptocurrency that is a personal use asset may be disregarded. Cryptocurrency may be a personal use asset if it is acquired and kept or used mainly to purchase items for personal use or consumption.

Cryptocurrency is not a personal use asset if it is acquired, kept or used:

- as an investment
- in a profit-making scheme
- in the course of carrying on a business.

Only capital gains you make from personal use assets acquired for less than $10,000 are disregarded for CGT purposes. However, all capital losses you make on personal use assets are disregarded.

See also:

- Personal use assets

Example: a personal use asset

Michael wants to attend a concert. The concert provider offers discounted ticket prices for payments made in cryptocurrency. Michael pays $270 to acquire cryptocurrency and uses the cryptocurrency to pay for the tickets on the same day. Having regard to the circumstances in which Michael acquired and used the cryptocurrency, the cryptocurrency is a personal use asset.

Example: not a personal use asset

Peter has been regularly acquiring cryptocurrency for over six months with the intention of selling at a favourable exchange rate. He has decided to buy some goods and services directly with some of his cryptocurrency. Because Peter acquired the cryptocurrency as an investment, the cryptocurrency is not a personal use asset.

Record keeping

You need to keep the following records in relation to your cryptocurrency transactions:

- the date of the transactions
- the value of the cryptocurrency in Australian dollars at the time of the transaction (which can be taken from a reputable online exchange)
- what the transaction was for and who the other party was (even if it’s just their cryptocurrency address).
- Note: We are currently consulting with industry and other interested stakeholders to seek feedback on any practical compliance issues arising from record-keeping requirements as they apply to cryptocurrency transactions. You can contribute to the conversation on Let's Talk . The consultation closing date through Let's Talk is 20 April 2018.

See also:

- Let's Talk
- Keeping your tax records

Carrying on a business

In the context of carrying on a business, funds or property you receive through the acquisition and disposal of cryptocurrency are likely to be ordinary assessable income where you:

- receive money or property in the ordinary course of your business.

If these gains or profits are ordinary income, you may be able to claim deductions, and any capital gains you make are reduced to the extent that they are also ordinary income.

Proceeds from the sale of cryptocurrency held as trading stock in a business are ordinary income. Examples of businesses that involve cryptocurrency include:

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

Not all people acquiring and disposing of cryptocurrency will be carrying on businesses. To carry on business, you need to:

- carry on your activity for commercial reasons and in a commercially viable way
- undertake activities in a business-like manner. This would typically include preparing a business plan and acquiring capital assets or inventory in line with the business plan
- prepare accounting records and market a business name or product
- intend to make a profit or genuinely believe you will make a profit, even if you are unlikely to do so in the short term.
- There’s usually repetition and regularity to your business activities, although one-off transactions can amount to a business in some cases.

Whether you are carrying on a business and when the business commences are important pieces of information. If you’re still setting up or preparing to go into business, you might not yet have started the business.

Money received (or property received) prior to a business being carried on is not generally assessable income. Likewise, you cannot claim deductions incurred prior to the business being carried on.

See also:

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

Using cryptocurrency for business transactions

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

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

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

See also:

- TR IT 2668 *Income tax: barter and countertrade transaction*

Exchanging a cryptocurrency for another cryptocurrency

Where you exchange one cryptocurrency for another cryptocurrency, you dispose of one CGT asset and acquire another CGT asset.

Where you receive property instead of cash as part of a transaction, you are usually taken to have the market value in Australian dollars of the property received.

We are currently consulting with industry and other interested stakeholders to seek feedback on practical compliance issues arising from cryptocurrency to cryptocurrency transactions. You can contribute to the conversation on Let's Talk. The consultation closing date through Let's Talk is 20 April 2018

See also:

- Let's Talk

Example: exchanging a cryptocurrency for another cryptocurrency

Katrina exchanges one coin of Cryptocurrency A for five coins of a Cryptocurrency

B. The market value in Australian dollars for both the one coin of Cryptocurrency A and the five coins of Cryptocurrency B is $5,000.

When working out whether or not she has made a capital gain or loss on the disposal of Cryptocurrency A, Katrina's capital proceeds are $5,000.

Paying salary or wages in cryptocurrency

Where an employee has a valid salary sacrifice arrangement with their employer to receive cryptocurrency as remuneration instead of Australian dollars, the payment of the cryptocurrency is a fringe benefit and the employer is subject to the provisions of the *Fringe Benefits Tax Assessment Act 1983*.

In the absence of a valid salary sacrifice agreement (for example, where the employee requests that salary or wages they have already earned be paid as cryptocurrency instead), the employee is considered to have derived their normal salary or wages and the employer will need to meet their pay as you go obligations on the Australian dollar value of the cryptocurrency it pays to the employee.

See also:

- TR 2001/10 *Income tax: fringe benefits tax and superannuation guarantee: salary sacrifice arrangements*

Further information

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

- TD 2014/25 *Income tax: is bitcoin a 'foreign currency' for the purposes of Division 775 of the Income Tax Assessment Act 1997 (ITAA 1997)?*
- TD 2014/26 *Income tax: is bitcoin a CGT asset for the purposes of subsection 108-5(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?*
- TD 2014/27 I*ncome tax: is bitcoin trading stock for the purposes of subsection 70-10(1) of the Income Tax Assessment Act 1997 (ITAA 1997)?*
- TD 2014/28 *Fringe benefits tax: is the provision of bitcoin by an employer to an employee in respect of their employment a property fringe benefit for the purposes of subsection 136(1) of the Fringe Benefits Tax Assessment Act 1986?*

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

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

Our commitment to you

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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