

Digging for the answers on crypto and tax

By [Christopher Renwick](#)

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Most people know what Bitcoin, or cryptocurrency, is by now. Some have even bought and sold a few and more impressively, some have found out how to turn cryptocurrencies into a business. Then, there are the miners.



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Following a process that involves no actual hard labour or rock breaking, crypto miners can generate cryptocurrencies by performing very complex calculations with the help of large amounts of computing power and specialised equipment.

For many miners, once the cryptocurrency is minted, the question of sale or hold arises. In other words, do they sell what they have minted, or do they simply retain it for the purposes of generating a long-term value? Of course, these decisions have a myriad of consequences, some of which go unconsidered.

Paying your dues

One of the more serious and often forgotten consequences of mining (and distributing) cryptocurrencies is the tax aspect and arising liability. More importantly however is that, where cryptocurrencies are concerned, the advice being given to miners, traders and holders of crypto's is inconsistent, inaccurate and potentially damaging for the recipient of such advice.

Predominantly, most tax professionals giving advice appear to have taken the stance that all crypto sales result in a generation of revenue and therefore income tax is payable. Whether this is owing to extreme conservatism or a lack of understanding, the principle that all crypto sales lead to revenue is, often, incorrect.

Long-standing debate

The test for whether proceeds received from cryptocurrency sales comes down to the much debated and heavily adjudicated argument of 'capital versus revenue'. Without digging into the debate and adding a voice to what is possibly the most saturated contestation in tax law, one quite simply cannot apply a blanket approach to all crypto disposals.

The South African Revenue Service's own website provides a differentiation between capital and revenue by stating: "Whilst not constituting cash, cryptocurrencies can be valued to ascertain an amount received or accrued as envisaged in the definition of "gross income" in the Act.

Following normal income tax rules, income received or accrued from cryptocurrency transactions can be taxed on revenue account under "gross income". Alternatively, such gains may be regarded as capital in nature, as spelt out in the Eighth Schedule to the Act for taxation under the CGT paradigm."

All factors need to be considered and specifically, the factors around crypto miners need special attention.

Crossing the Rubicon

There are those miners that sell upon minting crypto's and those that hold them for lengthy periods. However, the advice being given to these miners is a complete blanket approach. Tax practitioners seem to be opting for the easiest route of advising clients that all proceeds being generated from crypto disposals are revenue in nature, effectively implying that every crypto transaction is part of a profit-making scheme.

As a tax professional it is not reasonable to simply advise that all crypto-traders, miners and sellers should be subject to the same taxation standards. There are too many factors to consider with everyone to make a blanket judgement call. Consider the implications of advising a capital asset holder of the need to pay income tax on a disposal. The monetary difference alone is enough to raise the hair on the back of your neck. Not to mention the professional negligence.

For those involved in the crypto sphere, it is necessary to make sure that the advice you are being given is both sound and informed. Consult two tax professionals or better yet, consult 10. Alternatively, save yourself all that run around and ask the right tax professional.

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