FAJ TOP TAX TIPS 2023

CRYPTOCURRENCY

Understanding cryptocurrency taxation
Cryptocurrency is a digital currency that is not reliant on any government or bank. It is a constantly evolving asset that can cause a lot of confusion to taxpayers when it comes to tax. Crypto isn't considered to be a form of money for tax purposes. It is generally subject to the same tax rules as other assets and its tax treatment is dependent on how it is acquired, held, used and disposed of. Most commonly, cryptocurrency is classified as an investment, and therefore subject to capital gains tax.

Crypto & Capital Gains Tax Much like the sale of shares, when you dispose of cryptocurrency generally a capital gains tax event occurs. Each different type of cryptocurrency you hold is a separate CGT asset, similar to different shares in a stock portfolio. A disposal can occur when you sell, gift, trade or exchange one cryptocurrency for another. If you make a capital gain on the sale of your cryptocurrency, the profit will be taxed at the marginal tax rates. If the cryptocurrency was held for one year or more, a 50% discount applies to the capital gains. Any capital losses made as a result of disposing cryptocurrency can reduce any capital gains you make. It's important to keep records of all transactions to help us to assist you to correctly account for cryptocurrency transactions.

Recordkeeping for crypto In order to properly calculate the capital gains and losses on your crypto, you must keep records of every transaction made. Each crypto asset is a separate CGT asset, so you are required to keep details of every cryptocurrency you hold. Records must be kept for five years. Some third party organisations provide great summaries for your records, which can be especially helpful when calculating the capital gain or loss made on crypto.

Investment or trading stock? If you carry on a business of buying and selling cryptocurrency, the profits you make on disposal will be assessable as ordinary income rather than capital gains and you may also claim all related expenses as deductions. There are several criteria to be met to be considered to be carrying on a business when it comes to buying and selling crypto. This includes the size and volume of the transactions, the commercial viability of the activity, and the intention and manner that the activity is undertaken in. If you are uncertain with what you can claim or what taxing criteria you fall into, come in and we can help you to decide.

When crypto is not subject to tax There are times when holding cryptocurrency is not subject to capital gains tax and is rather considered to be a personal use asset. A personal use asset is one mainly kept or used for personal use. In the case of crypto, this is usually when crypto is used to buy items for personal use or consumption. Crypto is more likely to be a personal use asset if you acquire and spend it in a short period of time, for example, once crypto is purchased it is then used to buy concert tickets. On the other hand, if crypto is held for some time before it is used, or if only a small portion of the crypto is used for personal consumption, it is less likely to be a personal use asset. Further, for the capital gain to be disregarded on the disposal, the crypto must be acquired for less than $10,000.

ATO audit hot-spots – crypto data-matching The ATO has had a data-matching program in place for cryptocurrency since 2019. This is to ensure taxpayers are declaring all their cryptocurrency capital gains as taxable income. When preparing your tax return, you must include all taxable crypto transactions to avoid any potential fines and penalties. We can assist you with your cryptocurrency reporting obligations.

Francis A Jones has developed these Tax Tips to help you get exactly what you're entitled to in your tax refund. You can make an appointment by filling out the online appointment form www.faj.com.au/taxreturns or phone FAJ on 9335 5211.

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Francis A Jones is a CPA practice

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