

The Tax Implications of Cryptocurrency



Items for
discussion

1. What is Bitcoin and Cryptocurrency?

2. It's performance and rise to fame

3. The three tax events

a) Arbitrage

b) Buy and Sell

c) Mining

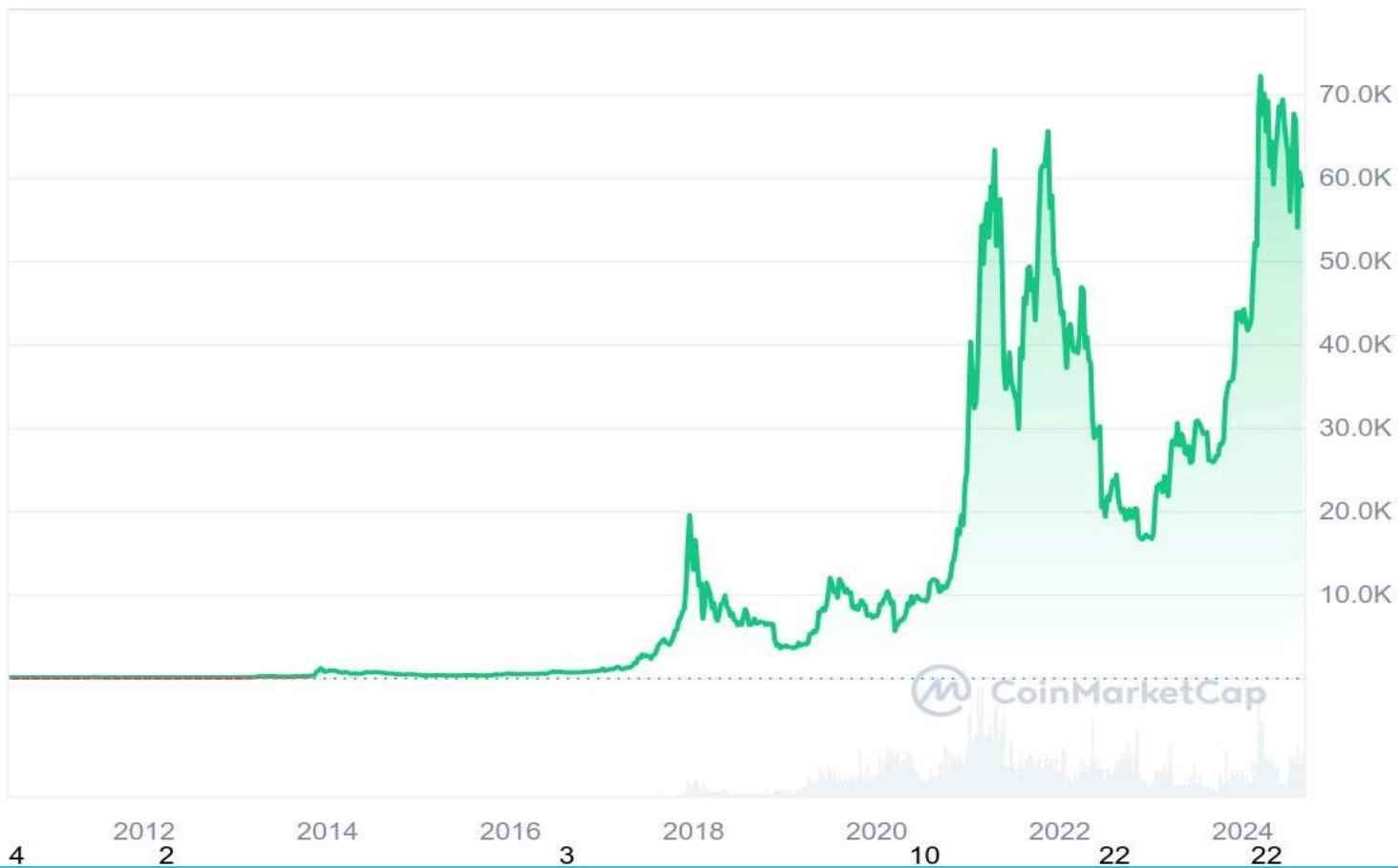
4. VAT

5. Estate Duty

What is Bitcoin – Key Takeaways

- Launched in 2009, bitcoin is the world's largest cryptocurrency by market capitalization.
- Unlike fiat currency, bitcoin is created, distributed, traded, and stored with the use of a decentralized ledger system, known as a blockchain.
- Bitcoin's history as a store of value has been turbulent; the cryptocurrency skyrocketed up to roughly \$73,000 per coin in March 2024, but less than 6 months later it is now trading for around \$59,000 (20% drop).
- As the earliest virtual currency to meet widespread popularity and success, bitcoin has inspired a host of other cryptocurrencies in its wake.





 Bitcoin BTC



\$58,988.28

▲ 95398750.99% (All)

Market cap ⓘ ▼ 4.35% \$1,164,801,272,164

#1

Volume (24h) ⓘ > ▲ 43.06% \$45,033,995,988

#2

Volume/Market cap (24h) ⓘ 3.86%

Circulating supply ⓘ 19,746,318 BTC

94.03%

Total supply ⓘ 19,746,318 BTC

Max. supply ⓘ 21,000,000 BTC

Fully diluted market cap ⓘ \$1,238,753,813,012



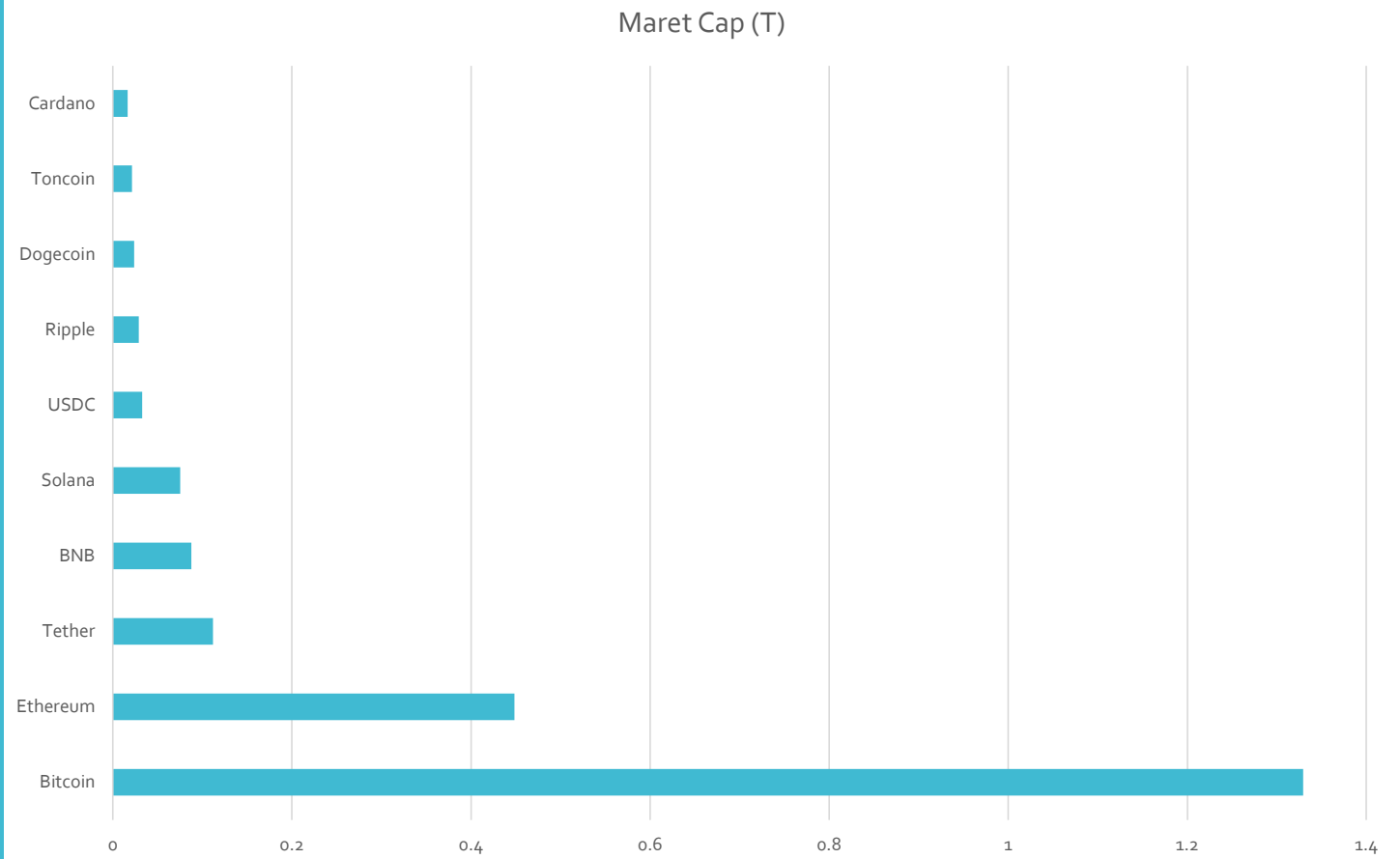
In May 2010, a Florida man, Laszlo Hanyecz, paid for two pizzas with the cryptocurrency, making him the first person to use Bitcoin in a commercial transaction.

He agreed to pay 10,000 Bitcoins for two delivered Papa Johns pizza's. (\$41 at the time)

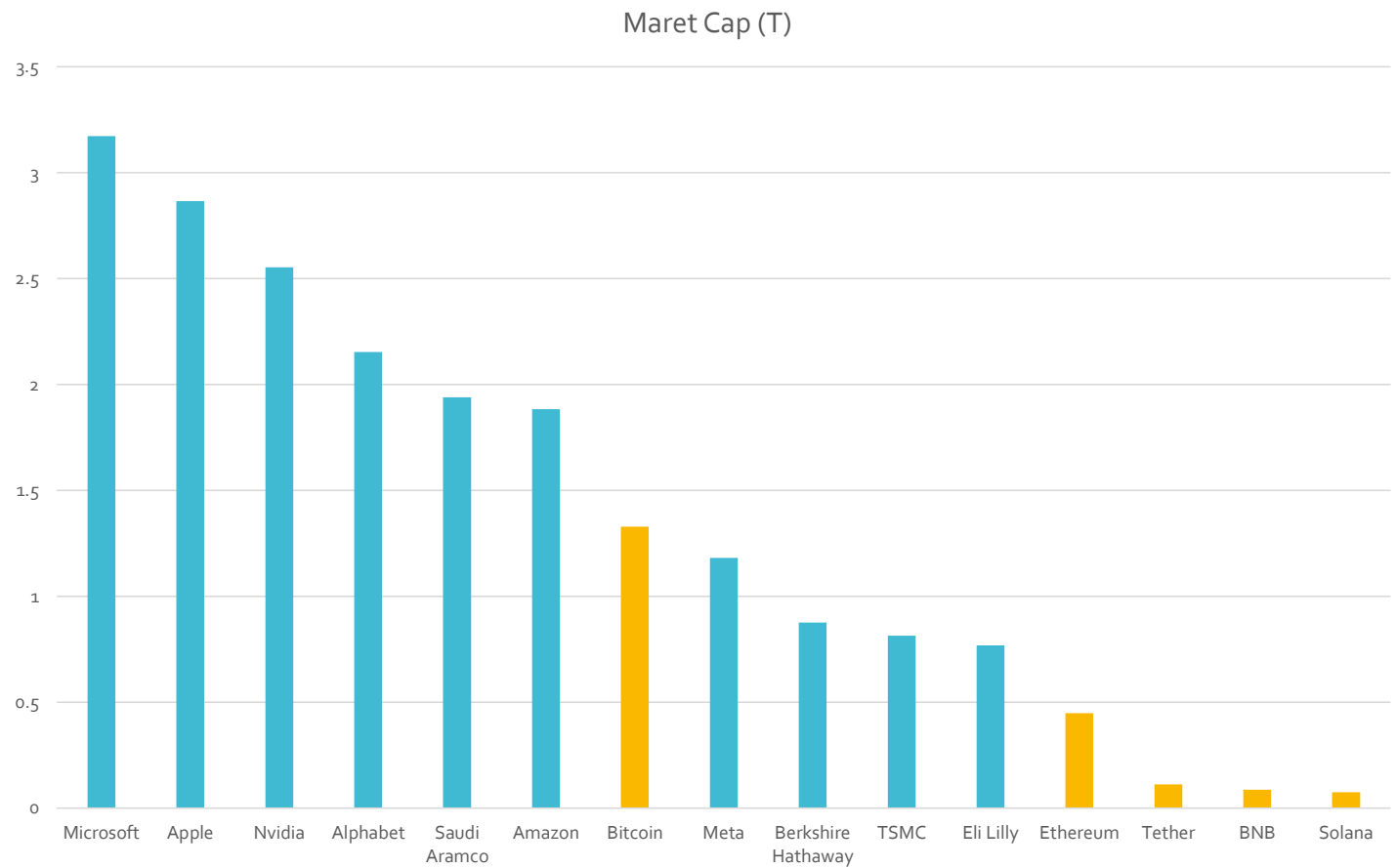
In today's terms – those pizza's cost him

\$320 million each!

Market Cap of Cryptocurrency



Market Cap of Cryptocurrency *Compared*



Worlds Unluckiest Man



James Howells

In 2013, a British IT worker named James Howells threw away a hard drive with a digital wallet containing what was then a little-known, virtually worthless cryptocurrency known as Bitcoin – 7500 Units to be exact.

Fast-forward, and at the time of writing a single bitcoin is trading at about \$63,700. That means the 7,500 bitcoins contained on the hard drive would be worth in the region of \$440 million. (R8 Billion)

He is currently trying to get permission to dig up the local landfill site to find the lost hard drive – Offering the local city council a 25% cut if he successfully finds it.

GOOD LUCK MATE

- Taxpayers must declare gains or losses related to crypto assets as part of their taxable income.
- The onus is on taxpayers to report all crypto asset-related taxable income in the tax year it is received or accrued.
- Encourage taxpayers to keep detailed records of crypto transactions, including dates, amounts, and counterparties.
- Penalties for non-compliance (up to 200%)



There are 3 Events:

1. Bitcoin Arbitrage
2. Buy and Sell
3. Bitcoin Mining

How are they accounted for and what are the tax implications?

Not all of my transactions have been arbitrage related. I bought the majority of my bitcoin during April 2017, which I then sold for a profit in July 2018. I bought again in April 2019 and then sold in October 2019, again for a profit. There were a lot of smaller transaction in between these.

These have been the major profitable transactions, with other smaller trading in between, and also the arbitrage trading, as well as some very small payouts from mining.

Would these major transactions not also be taxable, as I was buying and selling for a profit? These transactions all happened on the Luno exchange. I also bought mining equipment, (Which broke shortly after) would that be a tax deductible?

I have attached an excel spreadsheet for all of the arbitrage trading that I have done for each round trip, which I have attached.

Bitcoin Arbitrage

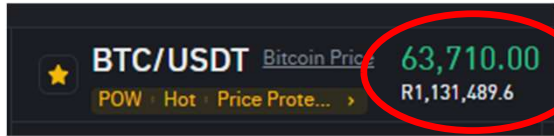
Explained

Arbitrage involves buying cryptocurrencies like Bitcoin on overseas exchanges, shipping them onto South African exchanges, and selling them at a profit.

This is possible because countries with exchange controls pay more for these cryptocurrencies – meaning they sell at higher prices.

If you are using the right investment platform, you can make **1%-15%** profit on these trades per day without taking on any risk.

The only catch is that you're limited by South African exchange control laws as to how much you can send out each year.



Send from wallet to wallet
via the Blockchain
Estimated Cost = R78



Purchase 1 Bitcoin for
R1 131 489

Sell 1 Bitcoin for
R1 152 656



Investec Bank

Binance allows purchases via credit card, which means you can get an additional R5200 in bank rewards points as well!

R21 089 Profit (1.86%)

Entire process takes around 1 hour

Remember: You would be only be allowed to do this once due to foreign exchange rules!

*Figures on 25 Nov 2021

Crypto Arbitrage – Tax Treatment

1. Client to provide schedule of movement of “Rand Cash” in and out of their bank account for each “trip”
2. Summarise all the movements to get a total per financial year (date sold is the taxable event)
3. Calculate overall profit
4. Deduct any further expenses incurred

Roundtrip	Date Purchased	Rands Sent	Date Sold	Rands In	Profit	%
1	03/03/2021	120 000	04/03/2021	124 560	4 560	3.8%
2	01/04/2021	180 000	02/04/2021	188 640	8 640	4.8%
3	17/05/2021	250 000	18/05/2021	260 500	10 500	4.2%
4	29/05/2021	60 000	30/05/2021	62 280	2 280	3.8%
5	12/06/2021	90 000	13/06/2021	94 050	4 050	4.5%
TOTAL		700 000		730 030	30 030	
	TOTAL PROFIT	R 30 030				
	Less Expenses:	R 2 650				
	Laptop W&T	R 800				
	Home Office	R 1 500				
	Bank Charges	R 350				
	Taxable Income	R 27 380				

Always Revenue Profit – No reason to do Arbitrage other than as a profit-making scheme!



Trading in Cryptocurrency

*Buy low - Sell
High*



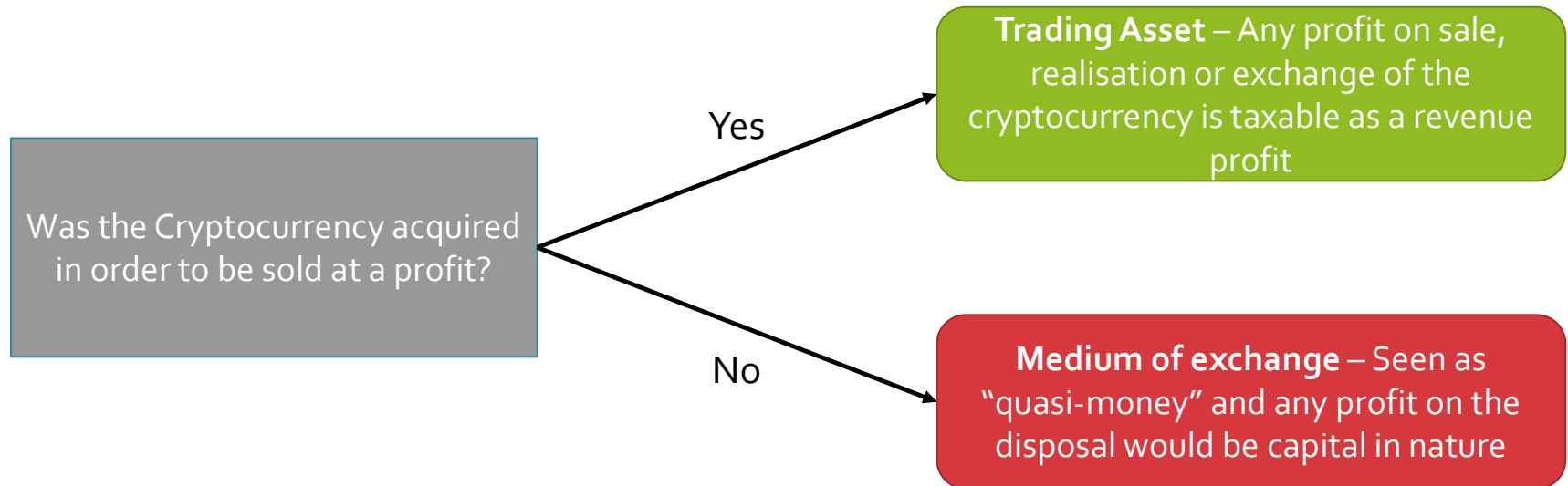


Crypto Trading – Tax Treatment

Important Point

A “Crypto Asset” is defined as a financial instrument in Section 1 of the Income Tax Act. Which means:

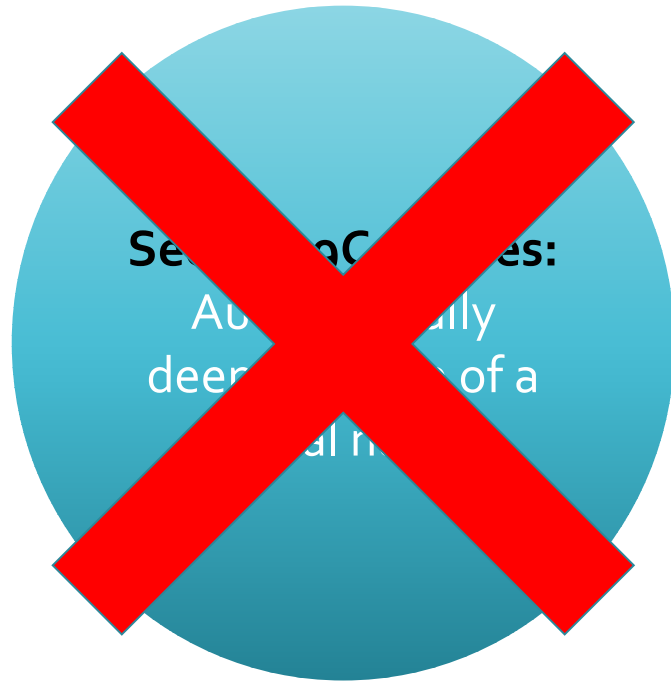
1. It cannot be a “personal use asset” for an individual
2. It cannot be written down below cost if held as closing stock



SARS will look at your crypto history to determine your motive!

Trading Asset	Medium of Exchange
Revenue in Nature	Capital in Nature
Treated as "Trading Stock"	Treated as "Property"
Subject to the provisions of Section 22	Subject to the provisions of the Eighth Schedule
Purchases are deductible in terms of s 11(a)	Purchases make up the Base Cost for future sales
Include other purchasing costs	Base Cost includes costs in acquiring the cryptocurrency
Exchange differences are EXCLUDED	Borrowing costs are EXCLUDED

What if you held Bitcoin for more than 3 years before disposing of them?



**Section 9C only applies
to Equity Shares in a
South African Resident
Company!**

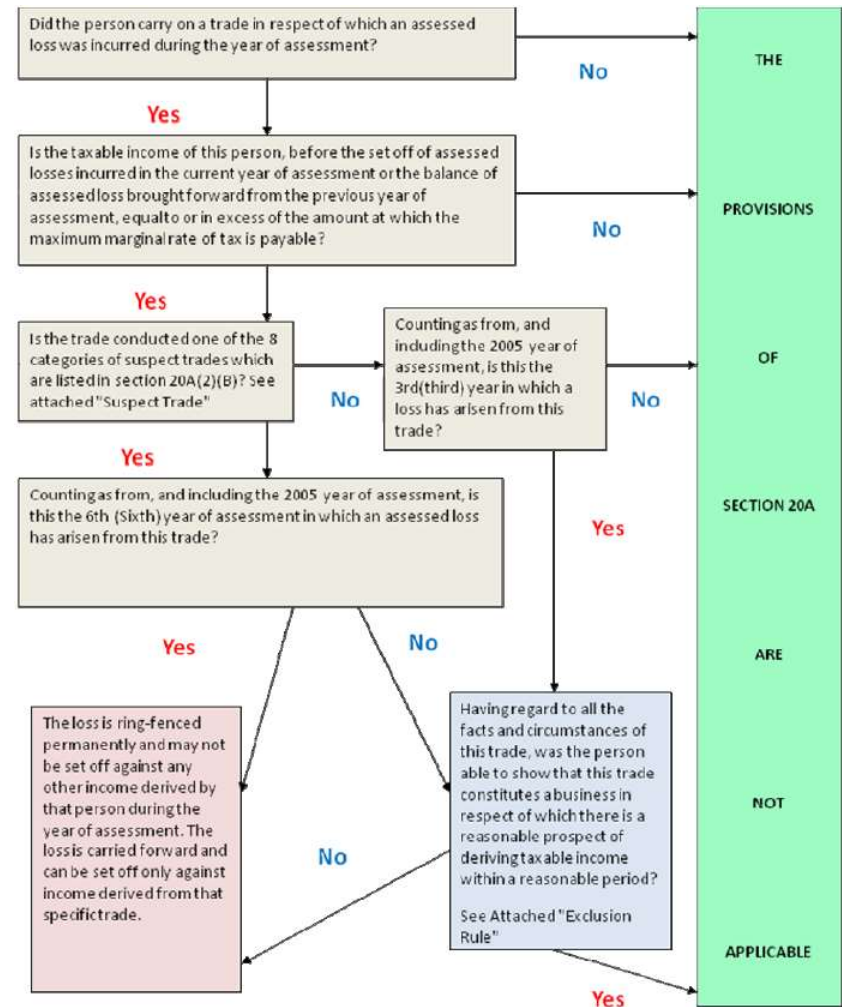
If you're Trading in Crypto-Currency, can you set off trading losses against your other income?

You will need to apply the provisions of s 20A (Ring-Fencing)

Suspect Trades:

1. Sporting activities;
2. Dealing in collectibles;
3. Rental of residential accommodation (unless at least 80% of the accommodation is used for at least half the year by non-relatives of the taxpayer);
4. Rental of vehicles, aircraft or boats (unless at least 80% of these assets are used for at least half the year by non-relatives of the taxpayer);
5. Showing animals in competitions;
6. Farming or animal breeding unless the person carries on these activities on a full-time basis;
7. Any form of performing or creative arts; and
8. ~~Gambling or betting.~~

9. Acquisition or disposal of any Crypto Asset



Extract from "Taxation implications arising from South African residents owning or having a tax interest in fixed property in Greece" by Royden Whitfield

A photograph of a server room with rows of server racks on both sides, illuminated with blue light. The racks are filled with server components, and the floor is highly reflective. The perspective is from the end of a long aisle, looking down the center.

Mining of Cryptocurrency

*Being rewarded for
verifying transactions*

Mining "Rigs" can vary in size considerably.

DIY home-built systems.



Extensive Warehouse Mines



Once connected up to the blockchain network, miners computers will automatically start "mining" by solving extremely complex computational puzzles. This is necessary in order to maintain the ledger of transaction on upon which Bitcoin is based.

Once a block on the blockchain has been "solved" all the miners who's provided their computer power are rewarded with the issuing of a new Bitcoin. This reward is then automatically deposited into their Crypto Wallet and retains its form as a Bitcoin.

Crypto Mining – Tax Treatment

Month	Bitcoin Earned	Average BTC Price	Earnings in Rand	Electricity	Insurance	Consumables	W&T	Profit
March	0.024138	R 166 000	R 4 007	R 500	R 380	R 100	R 1 265	R 1 762
April	0.024138	R 168 000	R 4 055	R 500	R 380	R 100	R 1 265	R 1 810
May	0.024138	R 164 000	R 3 959	R 500	R 380	R 100	R 1 265	R 1 714
June	0.024138	R 170 000	R 4 103	R 500	R 380	R 100	R 1 265	R 1 858
July	0.024138	R 168 500	R 4 067	R 500	R 380	R 100	R 1 265	R 1 822
August	0.024138	R 170 000	R 4 103	R 500	R 380	R 100	R 1 265	R 1 858
September	0.024138	R 178 000	R 4 297	R 500	R 380	R 100	R 1 265	R 2 052
October	0.024138	R 185 000	R 4 466	R 500	R 380	R 100	R 1 265	R 2 221
November	0.024138	R 224 000	R 5 407	R 500	R 380	R 100	R 1 265	R 3 162
December	0.024138	R 290 000	R 7 000	R 500	R 380	R 100	R 1 265	R 4 755
January	0.024138	R 372 000	R 8 979	R 500	R 380	R 100	R 1 265	R 6 734
February	0.024138	R 585 000	R 14 121	R 500	R 380	R 100	R 1 265	R 11 876
TOTAL	0.290		R 68 564	R 6 000	R 4 560	R 1 200	R 15 180	R 41 624
Cost of Mining Rig	R 75 900							
W&T Period	5 Years	<< Per IN 47						
W&T / Month	R 1 265							

Although you are not trading in Bitcoin, your earnings are still very much reliant on the price of Bitcoin

VAT on Crypto-Assets

To date SARS has not drawn a clear line in the sand with their stance on Crypto's and VAT.

SARS will somehow want to regulate this field and one should be on the look-out for new legislation published in due course.

In terms of the VAT Act, cryptocurrencies are deemed to be financial services and therefore exempt from VAT (Section 2 of the VAT Act)



VAT on Crypto-Assets

- **Receipt of payment in Cryptocurrency**

- The receipt of payment in cryptocurrency has no specific VAT effect for a vendor who is paid in cryptocurrency.
- It is the same as receiving cash.
- Big difference here is that the vendor is receiving the cryptocurrency and not supplying them.
- VAT would therefore arise from the supply of goods and services by the vendor, regardless of how these are paid for.

VAT on Crypto-Assets

- **Sale of Cryptocurrency**

- The sale of cryptocurrency by a vendor is not a sale of goods, because cryptocurrency is not a tangible asset.
- It is a supply of services (transfer of rights)
- The VAT Act defines cryptocurrencies as an exempt financial service and thus is treated similarly to interest – No VAT

VAT on Crypto-Assets

- **Use of Cryptocurrency to pay for goods**
- If a vendor uses cryptocurrency to pay for goods and services, this will be an exempt supply by the vendor.

Estate Duty CGT

Deemed to dispose of all assets at Market Value on date of death (Date of death spot rate converted to Rands)

Could argue that this disposal was not made to make profit – thus Capital in Nature.

If then sold out of the estate – any gain/loss would be capital in nature in the estate

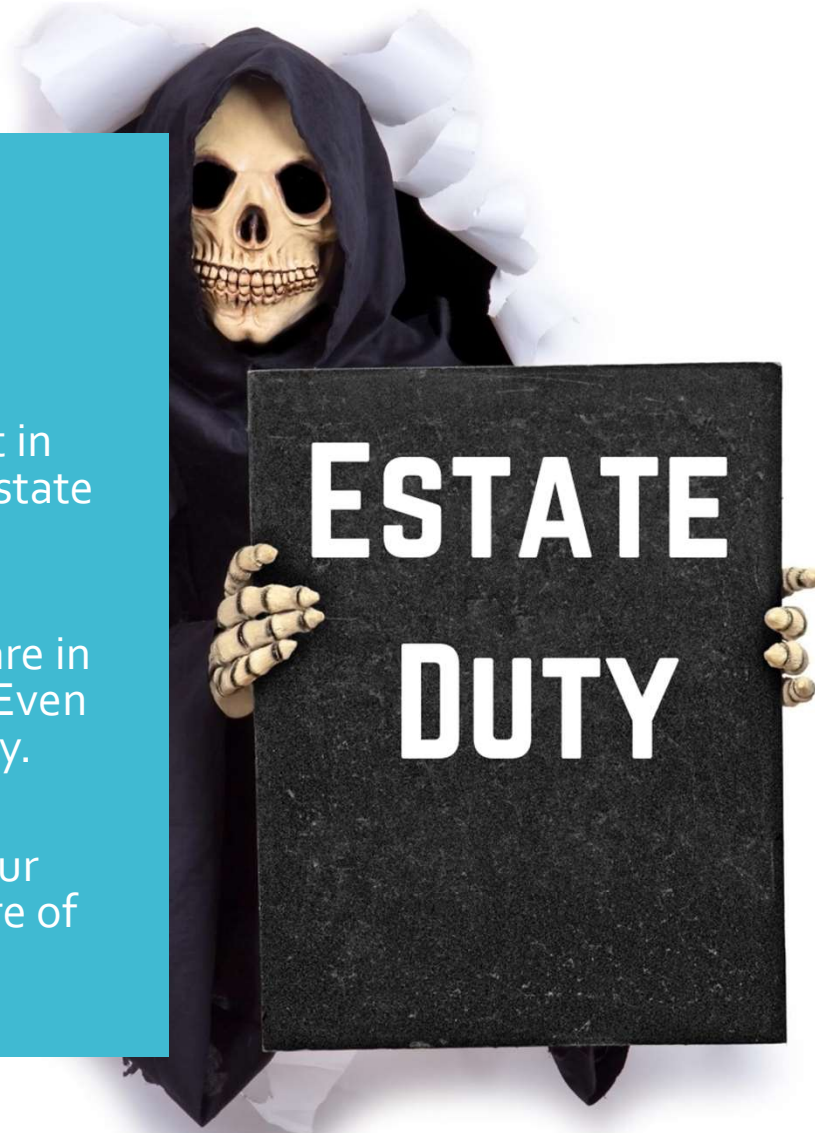


Estate Duty

Cryptocurrency is also treated as an asset in your estate for both executor's fees and estate duty purposes.

Majority of wallets with crypto holdings are in digital wallets with strict access controls. Even physical wallets can have a level of security.

It is therefore advisable to ensure that your executor and/or family members are aware of your holdings and how to access them.



End