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Taxation on Cryptocurrency: A Global Perspective

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Abstract

Cryptocurrency is the future of currency. It has the power and security that a lot of other currencies lack, and a digital approach towards currency seems to be the only way forward in this age of technology and rapid digitalization. With, the growth in the number of cryptocurrencies that many companies offer, and the growing enthusiasm and craze among people to be a part of this wave of economic growth, it has become extremely essential for authorities around the world to formulate and implement concrete and effective legislation governing both activities related to cryptocurrencies as also taxation levied on cryptocurrencies.

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Introduction

Cryptocurrencies are a form of decentralized digital currency that work are based on blockchain technology, which is linked to a network of computers. Cryptocurrency has piqued the imagination of people all around the world. If an individual is interested in cryptocurrencies, learning about their various elements is crucial to move forward. And the question of how cryptocurrencies can attract tax is as much valid if one is looking at investing. Authorities responsible for formulating rules on such issues, throughout the world, are working on standard taxation laws for cryptocurrencies. There seems to be no way to avoid paying taxes on cryptocurrency gains.

So, one of the most important questions which arises here is what do we mean by cryptocurrency? A group of binary data built in a manner to be used as a form of exchange. These were also known as digital currencies. It is a medium to buy goods and services which is protected by cryptography and this security helps in double-spending and counterfeit of the virtual currency. With cryptography as a base, the term cryptocurrency was introduced. Unlike other forms of currency, it is intangible and does not exist in paper or physical format. it is also not issued by the central authority.

This currency is considered a digital asset and is tradable it was created with blockchain technology which only has outline existence. Bitcoin an open-source software that was introduced in 2009 was the first-ever decentralized cryptocurrency. Bitcoin was built by a group of unknown people from Japan who used the name Santoshi Nakamoto. and after those other digital currencies like Ripple, Stellar & Litecoin, etc. were introduced. Although Bitcoin was the first digital currency earlier to its Invention, several virtual currencies secured with Ledger and encryption were attempted. for example, B-Money and Bitgold. however, they can never be fully developed. fixing the monetary value of these currencies was found very difficult in the first place but anyhow these currencies were bought into trade in 2010. Bitcoin when first traded its monetary value was 0.008 - 0.08 dollars and as of October 2021, the price of this currency was $61,000.

When people began liking the idea of decentralized and encrypted currency, the very first alternative to Bitcoin was introduced is Altcoin as of now more than 1000 cryptocurrencies are running in the world and new ones are being introduced continuously.

The global financial crisis of 2007 and 2008 which originated in the United States and as a result of which its housing market was collapsed it also apprehended to demolish the international financial system and even destroyed several major investments and banks as a result to it cryptocurrencies were created so that people can control their own money also that they didn't have to work according to the centralized power of banks companies and other people at a higher authority.

These currencies are not controlled by a specific person but their users control them. When the developers improve the software, they are not in a position to force the users to change the protocol because all users are free to use the software and version of their own choice.

Global Taxation System

Taxation is one of the significant sources of revenue for the government in all the countries around the globe as per the research and report of International Centre for tax and development in about 50% of the country's taxation sole contributes to 80% of the government's revenue while in the other half countries 50% of government revenues is generated through taxes. The developed countries of the world gather a large share of their national output in taxes on the other hand the developing countries depend on trade and consumption taxes and rely on income taxation to do so. The developed countries end up collecting more taxes than the developing countries. Until the year 1920, the taxation charged by their countries was below 10% but after the period of First World War 1920 - 1980, the rate increased drastically.

Taxation System of India

The government generates a large amount of its revenue from taxes and utilizes this revenue in different developmental projects. The Indian taxation system is well developed and structured. it has a three-tier federal structure, namely the central government followed by the state government and then last but not the least municipal bodies. There are two types of taxes levied in India (i) direct and (ii) indirect taxes

i. **Direct Taxes**

These are taxes charged on corporate companies and individuals. such taxes are non-transferable which is the burden of payment that cannot be transferred.

Types of Direct Taxes

1. **Income Tax:** One of the most important types of direct tax is that of income tax. It is imposed each year from 1st April to 31st March. if an individual's income stands more than the minimum exemption limit payment of income tax becomes a compulsion
2. **Capital Gains Tax:** when capital assets are sold and the profit is generated the tax charge on profit is called capital gain tax. the rate relies on the type of gain. It is divided into the following two types:
    a. **Short-term capital gain** when an asset is sold within a specified time limit that is usually short this is this tax is applicable.
    b. **Long-term capital gain** is when the asset is sold after the specified period that is usually long this transaction comes within the limit of long-term capital gain.
3. **Corporate Tax:** The tax charged on the income or profit of a corporate firm of business is corporate tax. it depends upon the turnover of the firm.

ii. Indirect Taxes

The taxes charged on the expenses of the individual come under the criteria of individual taxes these are generally imposed on materialistic goods and services. It is transferable that is the burden of payment can be transferred from one individual to another. There exist different types of indirect taxes as well like value-added tax, service tax, customs duty, excise duty, stamp duty, entertainment tax, and services transaction tax.

iii. Goods and Service Tax

The Goods and Services Tax is levied on the sale of goods and services and it is a comprehensive multi-level tax. it was introduced on 1st July 2017. it is a single domestic indirect tax charge for the entire country it was introduced to curb the incidence of double taxation and cascading effect.

How Taxes Are Levied on Cryptocurrency

In this section of the article, we will be going over how cryptocurrency is taxed in various jurisdictions and what are the various provisions regarding the same.

I. Cryptocurrency Taxation in the United States of America

In the United States of America, cryptocurrency is viewed as a type of property, and hence it attracts Capital Gains Tax when disposed of. The federal rate of tax on capital gains generated from cryptocurrency varies between a range of 0% and 37% (FY2020). When an individual buys cryptocurrency, they should keep track of the price they paid for the same. This is the crypto asset's cost basis; The selling price is the disposal price when the crypto is sold while the capital gain is the difference between the selling price and the cost basis.[2] The fair market value of virtual money in USD as of the date of payment or receipt will be demanded of taxpayers.[3]

Any gains or losses that are incurred from a cryptocurrency asset possessed for less than a duration of a year, are imposed a tax upon at the highest marginal tax rate applicable to your taxable income. Any losses incurred can be further utilized to offset income tax up to $3,000 in total. Any additional losses might be carried over to the next year.[4]

If cryptocurrency was possessed for more than 12 months known as a "long-term capital gain", then the rate of tax that is imposed is much lower, and is either 0%, 15%, or 20%, depending on the individual or combined marital income.

II. Cryptocurrency Taxation in the United Kingdom

The HMRC has published a crypto handbook in the United Kingdom. This manual concerns the tax treatment of crypto assets.[5] Individuals possessing cryptocurrency assets as a personal investment, primarily for capital appreciation or to carry out specific purchases, maybe levied with Capital Gains Tax when the assets are sold. There may be instances, like in Australia, when an individual is running a firm that engages in financial trading in Crypto assets. When trading profits that can be taxed arise, the income tax laws take precedence over the Capital Gains Tax requirements.

III. Cryptocurrency Taxation in Australia

Similar to the United States of America, Australia classifies cryptocurrency as either an asset on which Capital Gains Tax (CGT) can be imposed when sold or as trading stock when it is used to do business. If the latter occurs, trading will not be subject to CGT and will instead be governed by business trading regulations.

If cryptocurrency is possessed for sale or exchange in the regular course of business, the rules of trading stock apply instead of the Capital Gains Tax regulations. Proceeds from the sale of

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[2] Marlena Lancette-Smit, *Crypto Tax around the World*, TAXABLY (Dec. 10, 2021, 10:26 PM), https://www.taxably.com.au/post/crypto-tax-around-the-world.

[3] *Ibid.*

[4] Justin Varghese, *Is Bitcoin taxed? Here is how the world's largest cryptocurrency is taxed globally*, GULF NEWS (Aug. 03, 2021, 11:51 AM), https://gulfnews.com/your-money/cryptocurrency/is-bitcoin-taxed-here-is-how-the-worlds-largest-cryptocurrency-is-taxed-globally-1.1627977579281.

[5] Marlena, *supra* note 2.

cryptocurrency possessed as trading stock in a business is ordinary income, and the cost of acquiring cryptocurrency held as trading stock is deductible.[6]

Cryptocurrency possessed for some time more than 12 months by a tax resident of Australia qualifies for the 50% Capital Gains Tax deduction if the Capital Gains Tax rules apply. This effectively indicates that 50% of the net gain is exempt from taxation.[7] An event of Capital Gains Tax will be triggered when cryptocurrency is disposed of but not taken from a cryptocurrency wallet. Instead of the actual sale price, the cryptocurrency's AUD market value on the day of disposal is taken into consideration.

IV. Cryptocurrency Taxation in the Netherlands

The taxation system of the Netherlands is different from that of the Commonwealth countries in the sense that it imposes a wealth tax instead of a Capital Gains Tax. Rather, a presumed interest is levied in the Netherlands on the value of all assets minus all liabilities at the start of the tax year (except for the main residence, business income from sole trader businesses, and major shareholdings in companies larger than 5 percent).[8] The presumed interest is subject to a flat 31 percent rate of taxation (in 2021, 30 percent in 2020).

V. Cryptocurrency Taxation in Finland

The Finnish Act on Virtual Currency Providers defines virtual currency as follows:

"For this Act, the meaning of the term virtual currency refers to a value in a computer-coded digital format

> ***a.*** *for which no central bank or other public authority has been the issuer, and which is not legal tender as a means of payment;*
>
> ***b.*** *with which a person can settle a liability i.e. pay up the liability; and*
>
> ***c.*** *which can be electronically transferred, electronically saved, and electronically exchanged."*

According to a judgment by the Supreme Administrative Court of Finland, virtual currencies should be treated as assets. This indicates that the capital gains tax regulations apply.

VI. Cryptocurrency Taxation in India

In India, banks and other financial institutions were prohibited from assisting cryptocurrency transactions by the Reserve Bank of India (RBI) in 2018. The order was overturned by the Supreme Court in 2020. Even though trading on this virtual money is permitted, they have

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[6] Justin, *supra* note 4.
[7] *Ibid*.
[8] Marlena, supra note 2.

not yet been granted legal tender status. However, no one is exempted from paying taxes on bitcoin transactions.

The Income-Tax Act of 1961 in India does not provide any clear recommendations on cryptocurrency taxes. However, taxpayers who have profited from cryptocurrency investments must record such transactions.

In March 2021, Mr. Anurag Singh Thakur, Minister of State for Finance, remarked in response to a question in the Rajya Sabha that "the gains resulting from the transfer of cryptocurrencies/assets are liable to tax under the head of income, depending on the nature of holding the same."

Your gain will be classified as long-term capital gains if you hold your cryptocurrency for more than 36 months. Short-term capital gains, on the other hand, are gains made over a shorter period. These profits are taxed at various rates. The gains on long-term investments are taxed at a rate of 20%. The rest, including those with gains obtained over a shorter period, are liable to personal taxation at the applicable rates.

If a trader makes a lot of cryptocurrency transactions, whatever profit he makes after that is taxable as business income. If one owns cryptocurrencies as a 'stock-in-trade,' the money they earn from them will be taxed.

As a result, if an individual continues to trade cryptocurrencies, they should be aware that any profits they make will be taxable as business income.

Regulations regarding Cryptocurrency Worldwide

As cryptocurrency has now become a significant player in the game of global investment different countries had different approaches to regulate it.

I. United States

The legislative system of the United States is dual because both the state and the central authority have the power to legislate. The country as a whole is in favor of the activities involving cryptocurrency. However, the rules and regulations differ from state to state in the year 2016 New York stood out among the other states and introduced licensing of cryptocurrency which came to be known as Bit license. Under the framework, the companies which wanted to hold buy or sell cryptocurrencies were required to attain a license from the New York State Department of financial services.

II. China

In the year 2019, China alone accounted for 75% of crypto mining in the world and as per reports China prohibited the mining which led to the downfall in global mining operation and it amounted to 40%. China's graph in dealing with the virtual currency has been a zig-zag format. In the first place, it welcomed the crypto-related initiatives and later on imposed a ban. However Chinese government favored blockchain technology and also it encouraged startups related to this technology. China also took a major step by introducing a digital yuan cryptocurrency, but unlike the other virtual currencies, this currency will be centralized and will be different from other cryptocurrencies.

III. United Kingdom

No detailed legislation on the regulation of virtual currency exists in the United Kingdom as of now the Financial Conduct Authority has the sole power to provide licenses for all the businesses. this body laid down some stringent rules and regulations for the companies who deal in such trading. in the United Kingdom, all such companies come under the criteria of corporate tax rules. from time to time the FCA body has issued warnings to the investors of cryptocurrency to gain proper knowledge and take caution while investing in such virtual currencies.

IV. India

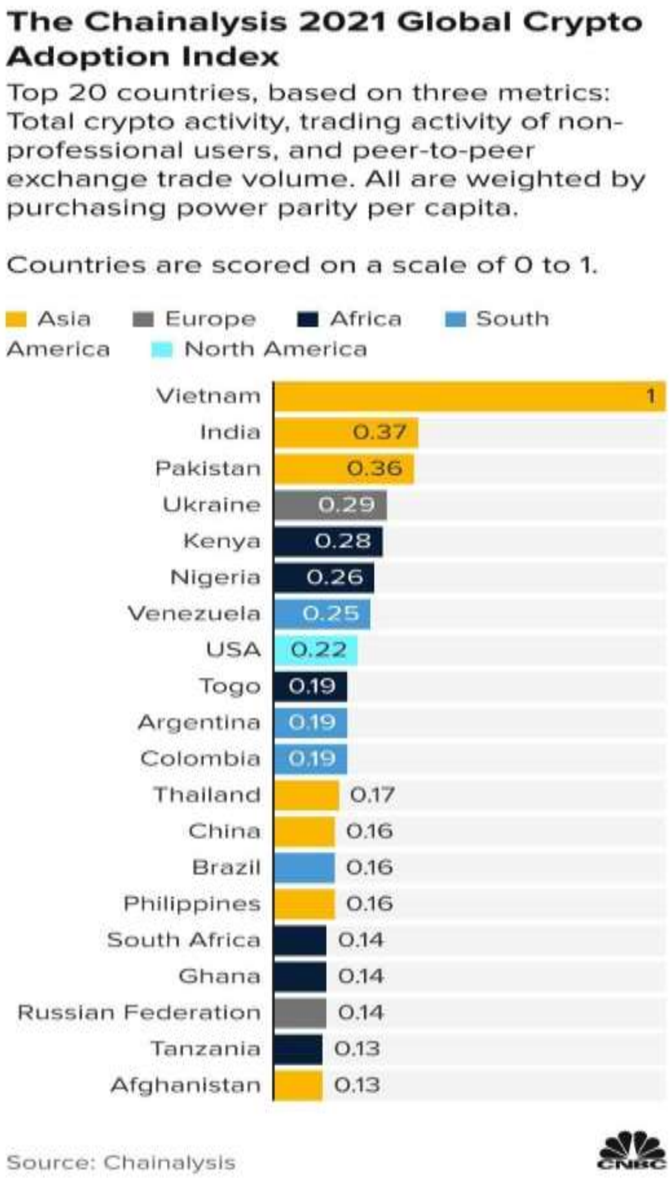
India sketches that these virtual currencies are not legal tender. according to the country's central board of taxation mentions that investors who invest in crypto trading are supposed to pay taxes on the profits made by them. Reserve Bank of India imposed a ban in 2018 on the trading of virtual currencies but the Supreme Court in the year 2020 overturn the ban and in 2021 India introduced a law in regards to trading of cryptocurrencies.

V. South Korea

The country doesn't recognize virtual currency as a legal tender and as of September 2021, it became mandatory for individuals to get themselves registered if they act as a crypto exchange or virtual asset service providers in the country. digital currency transactions elude the capital gain tax.

VI. Japan

Japan was the birth country of cryptocurrencies as the very first crypto was introduced in Japan. Japan has a very easygoing approach when it comes to cryptocurrencies it has recognized them as legal property. however, it mandates the crypto exchanges to get it registered with the FSA and abide by all its obligations. the profit earned via cryptocurrency is treated as a miscellaneous income and it taxes the investors accordingly.



As per the **Chainalysis**, the 2021 global crypto adoption index reflects the take of cryptocurrencies around the world. this data ranks 154 countries according to the trading and transaction volume of the cryptocurrencies. the countries are ranked on the score of 0-1. out of all these 154 countries, Vietnam was the only country to secure above 0.4, India stood at second position with a score of 0.37, Pakistan also took a firm lead with 0.36, Ukraine stood at 0.29, Kenya with a score of 0.28 secured its position in the top five countries. the Russian Federation with a score of 0.14, Tanzania with a score of 0.13 and Afghanistan with a score of 0.13 stood as the bottom three countries. Overall, the adoption of virtual currencies took off 881% as compared to last year.

Due to Tesla's large amount of investment in Bitcoin the cryptocurrency market in 2021 is blooming at a very high pace. in comparison with the crypto market of January 2014 Bitcoin in the year, 2014 had a market of 11 billion, Litecoin with 659 million cryptos which stood in the top five had a value of more than $110 and for the rest of the crypto's the value was less than $1,000,000. and according to May 2021 Bitcoin is stood with a market capitalization of 1,063,687,729,739 dollars. Dogecoin's graph in the recent few months had shown an upward movement and has obtained a market capitalization of 65,568,791,338 dollars. there exist other cryptocurrencies as well which form a value of more than 50,000,000 dollars. such currencies are Tether, XRP, Cardano. among the top 25 cryptocurrencies, Monero stands at 25th position and shared a market value of 8,145,725,554 dollars.

Conclusion

From the various studies and the overview of taxation legislations around the globe, one can safely conclude that the world is together working on creating a sustainable environment for engaging in activities concerning cryptocurrency in addition to formulation statutes regarding the same. Cryptocurrency can be said to be the future of currency, and hence to protect the future of the lifeblood of any economy, concrete legislations have to be made from this moment onwards.

Countries around the globe are taking various steps to regulate these currencies in a better manner also one cannot be ignorant about the growth of these currencies it has been 10years since these decentralized currencies came into being and within this short period, it has made their presence very effective the demand for such currencies is growing with time and are expected to play a leading role in the market someday a lot number of such currencies are launched in the market showing different growth graphs and phrases the world is dynamic it would be very interesting to see further how these currencies change it even more

It can further be positively said, that the authorities across the globe are taking positive steps forward to draft such statutes so that any mischievous activities and wrongdoing concerning cryptocurrency can be prevented in addition to taxing the various profits made from such trade to enable the governments around the world to better function. Further, a unified and universal approach towards legislation governing such a decentralized form of digital currency is what the authors believe is the need of the hour.