

Business with cryptocurrencies: Which taxes will apply?

Cryptocurrencies are increasingly gaining in significance

The market capitalisation of Ripple and Ethereum currently stands at 270 and 489 million US dollars respectively. Bitcoin actually comes in at 6.7 billion US dollars. The greater the volume of these alternative currencies increases on the Internet, the more taxation questions will be posed by businesses using these cryptocurrencies. Once turnover of a considerable financial value is effected, this will inevitably lead to an increased interest from the legislators and especially from the financial authorities. But how will taxes on Bitcoin be calculated and levied?

The legal nature of cryptocurrencies

To better illuminate the fiscal questions surrounding cryptocurrencies, it is firstly important to consider how these currencies are viewed and treated from a legal perspective. In Germany, only Bitcoin has been explicitly addressed so far. On behalf of the Federal Government, the Federal Financial Supervisory Authority (BaFin) determined in 2013 that Bitcoin is to be deemed a “unit of account”. Since these “units of account” would be used in multilateral cost accounting, the currency would be considered a form of “private money”. In practice, Bitcoin acquires in this way the status of a foreign currency, even though this is not the case at all. Different to the dollar, pound or yen, Bitcoin is not a legal currency in any country in the world. Nevertheless, handling takes place as a form of foreign currency and is even internationally seen in a similar manner. Evidence for this is a decision from the European Court of Justice in 2015 stating that the exchange of currencies for Bitcoin will attract no VAT, since a simple exchange between two currencies is involved, without an actual sale being performed in a legal sense. Bitcoin, according to this ruling, is to be treated like other payment methods. To this extent, the fiscal treatment can proceed similarly to the handling of domestic business on a foreign currency basis.

Every sale counts: VAT on businesses using cryptocurrencies

Whereas no VAT is levied on exchanges of euro to Bitcoin, things look different when a vendor performs an actual sale and accepts Bitcoin as the payment method. VAT will be applicable to this transaction. But how will this be calculated? In the first instance, it will depend upon which applicable VAT rate is to be employed. Apart from groceries, books and a few other basic items, which are taxed at 7 percent, a general rule of 19 percent will apply. The purchase price paid in Bitcoin is represented by the gross amount. From this, the net amount will need to be calculated. Next, in accordance with correct accounting, the applicable exchange rate at the time the transaction was concluded must be established. The sum now arrived at is to be divided by 1.19. It is this figure that represents the net amount for the sale. If we in turn deduct this from the exchange sum, we will then arrive at the applicable VAT figure for the sale.

This can be clarified by an example:

A computer is sold for the price of 3 Bitcoin.

3 Bitcoins x 370.00 Euro = 1,110 Euro (gross price)

1,110 Euro / 1.19 = 932.77 Euro (net price)

Gross price - net price = 177.23 Euro (VAT)

Due to the sometimes considerable exchange rate fluctuations with Bitcoin, this form of VAT determination does involve a significant effort in accounting. This is nevertheless unavoidable for business people, failing which, on the other hand, could lead to problems during potential tax audits.

Profits from Bitcoin businesses

The fiscal treatment of profits from Bitcoin businesses depends upon the nature of these businesses. Here will also be distinguished between the purchase and sale of Bitcoin in itself, as well as the conducting of business on the basis of Bitcoin.

In the first case, involved here is termed a 'speculative transaction'. This is to be considered similarly to comparative businesses using other currencies or even securities. It thus depends on how much time has elapsed between the purchase and sale of Bitcoin. After a holding period of over one year, the profit from a speculative transaction becomes tax free, as long as a private disposal transaction is the case. If the holding period is shorter, on the other hand, then the revenues gained will be called upon for income tax. With considerable profits, this can even lead to a higher bracketing in terms of progression, so that all other income must also be taxed higher. The opposite, of course, is also possible, of making a fiscal claim for losses from speculative transactions using Bitcoin. This is only achievable, however, when profits have accrued from other private disposal transactions.

A difference then arises when the vendor accounts for sales on the basis of Bitcoin. This situation is one of income from an established and operating business enterprise, which must be booked and taxed as income in the context of balance or revenue surplus accounting. For this purpose, the income achieved must obviously be converted to euros first of all.