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## Cryptocurrencies under scrutiny from tax authorities

Cryptocurrencies remain popular despite their highly volatile development and slump in trading prices. There are therefore increasing questions about their tax treatment in practice.

Although the initial hype around cryptocurrencies like Bitcoin, Ethereum and Ripple suffered a setback when trading prices fell, the currencies have made significant gains in popularity and companies are increasingly using them as payment and funding instruments. Certain tax authorities such as Zug, Lucerne and Zurich have therefore published leaflets setting down the principles governing the tax treatment of cryptocurrencies based on experiences so far. The taxation of cryptocurrencies is evolving on an ongoing basis.



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### Cryptocurrencies held as private assets

The best-known cryptocurrencies such as Bitcoin and Ethereum are primarily used as digital payment instruments and are economically similar to the ownership of cash or precious metals. The assets are subject to wealth tax and need to be declared on the tax return in the schedule of securities and assets, under "other receivables". Proof of assets can be supplied with a print-out of the year-end balance of assets in the digital "wallet" or similar documents. The year-end exchange rates published in the price lists of the Swiss Federal Tax Administration (ESTV) are used to determine the wealth tax value. If there is no "official" market value, then you need to enter the year-end exchange rate of the trading platform which was used to process the purchase and sales transactions. If no current valuation rate can be found, the cryptocurrency must be declared at the original purchase price.

Capital gains achieved with cryptocurrencies are tax-free and capital losses are of no significance for tax purposes. However, salary payments in the form of cryptocurrencies are to be treated as taxable earned income which must be listed on the salary statement at the value applying at the time of their receipt. When cryptocurrencies are used for company financing in the form of Initial Coin Offerings, digital assets (so-called tokens) are often issued that give the holder additional rights such as dividend, voting or liquidation rights. In these cases, tax implications must be individually clarified depending on the specific features.

### Mining and commercial trade in cryptocurrencies

If a taxpayer makes their computer available to process cryptocurrency transactions (so-called mining) against payment (e.g. Bitcoin) or a person collects transaction fees, then they are realising taxable income from self-employed or employed activities, which is also subject to social insurance and possibly value-added tax. If cryptocurrencies are included in business assets, the gains are taxable and the losses are tax-deductible. Rate fluctuations must be recorded according to commercial law principles (book value principle).

Acquisition costs must be posted at the time of acquisition. Should there be an increase in value by the end of the year, the person independently acquiring the cryptocurrency is free to decide whether they want to keep the acquisition value or realise the increasing value before effective divestment. If losses are incurred, these can be set off against other income.

The tax authorities use the criteria listed in the ESTV circular on professional trading in securities to determine whether it is a case of commercial trade or simple private assets management.

The taxpayer therefore needs to clarify the tax situation relating to their individual circumstances as soon as possible. This will firstly protect them from a surprise assessment as a commercial trader and will secondly offer them planning options.

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