

SINGAPORE

Crowe Singapore



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Interpreting income tax treatment of digital tokens in Singapore

Sivakumar Saravan and Liew Kin Meng of Crowe Singapore decipher the key takeaways for taxpayers from the IRAS guidelines on the income tax treatment of transactions involving digital tokens.

Digital tokens have evolved beyond being a virtual currency to one which carries out varied functions ranging from claiming ownership in livestock to participating in the affairs of a sports club. With this evolution, the tax issues concerning transactions involving digital tokens are becoming more challenging.

Acknowledging this trend, the Inland Revenue Authority of Singapore (IRAS) released guidelines on the income tax treatment of transactions involving digital tokens in the e-tax guide published on April 17 2020 (the Guide). These guidelines serve to provide greater certainty to taxpayers, making it easier for them to comply with their tax obligations. In this article, we provide some of the key guidelines laid out in the Guide.

Tax treatment for digital tokens

As there are different types of digital tokens with different functionalities and rights attached, the tax treatment is categorised according to the type of digital tokens as defined by the IRAS.

Payment tokens

A payment token is defined as one that represents a digital right that can be used or is intended to be used as a means of payment for goods and/or services. The IRAS does not recognise payment tokens as fiat currency and has classified them as intangible properties for tax purposes. In this regard, the tax treatment will largely depend on the nature of each transaction.

Where payment tokens are used to pay for goods or services, a barter trade is considered to have taken place. The business which receives payment tokens for the goods or services it has provided will be taxed on the value of the underlying goods or services provided. Similarly, the business that pays for the goods or services using payment tokens can claim a tax deduction, subject to general deduction

rules, based on the value of the underlying goods purchased or services received. The value of the goods or services is to be determined at the point of transaction and will depend on the contractual terms of the transaction.

For example, if Company X sells goods that are priced at 5 bitcoins, the taxable income to Company X will be determined based on the market value of the 5 bitcoins at the transaction date. However, if the price of the goods are denominated in fiat currency, say S\$500 (US\$352), and Company X receives payment tokens in equivalent value from the buyer, the taxable revenue in this case will be S\$500.

Where a holder of payment tokens exchanges them for fiat currency or a different type of payment tokens, the resulting gain or loss from the disposal will be taxable or deductible, as the case may be, if the tokens are revenue assets. Conversely, if the tokens are held as capital assets, the gain or loss from disposal will not be taxable or deductible. What constitutes capital or revenue will depend on the circumstances of each case.

The taxability of a miner's profits from the disposal of payment tokens that were obtained from mining depends on whether the miner performed the mining activity with an intention to profit. For example, if an individual obtained payment tokens while performing mining as a hobby and not as a means to earn a living, any gains from the subsequent disposal of the tokens should not be taxable.

Although it is uncommon for payment tokens to be issued via an initial coin offering (ICO), the basic principle is that the issuer of payment tokens in an ICO shall be considered to be trading in payment tokens and the proceeds are taxable to the issuer.

Utility tokens

Utility tokens give the token holder the right to redeem a good or service. Usually utility tokens are issued via an ICO. Proceeds from the issuance of utility tokens are considered payment for future services and are taxable as and when the performance obligations for the services are fulfilled.

From the buyers' perspective, when a utility token is acquired, it is treated as a prepayment. A tax deduction will be allowed to the token holder, subject to general tax deduction rules, when the token is used to exchange for the contracted goods or services.

Security tokens

A security token gives the token holder equity or an interest akin to a specified or implied degree of control or economic

entitlement. Proceeds from the issuance of security tokens are not taxable on the basis that they are capital in nature.

The rights and obligations created by the security tokens determine how the returns from holding such tokens should be taxed i.e. whether the returns are interest income from debt or dividend income from equity. There are specific provisions to exempt dividends from tax provided certain conditions are met.

The tax treatment of any gains or loss arising from the disposal of security tokens will depend on whether the token-holder is trading in the tokens or holding the tokens as a capital asset.

While most tokens should fall within any of the above three categories, any transactions involving digital tokens that are outside the three categories will require an examination of the nature of such tokens to determine the tax treatment.

In addition to the issues discussed above, the Guide also addresses, amongst others, the tax treatment of founder's tokens, tokens received through airdrop and hard fork, ICO failures and issues relating to the determination of the source of income.

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