



ZiMUN 2018
Economic and Financial Committee
Research Report

Forum: Economic and Financial Council

Issue: Measures against fiscal fraud through cryptocurrencies

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Position: Chair

Overview of the Issue

Bitcoin, also called a mobile currency or a crypto currency, was created in 2009 by Satoshi Nakamoto, a mysterious individual or a group of people whose true identity is still unknown today. The main idea behind the establishment of this virtual currency was to enable quick and cheap online payments without the need to use traditional banking channels. Bitcoin gained in popularity when its price jumped from around 572.33 U.S. dollars in August 2016 to approximately 4,764.87 U.S. dollars in August 2017.

Fiscal fraud or tax evasion has been an issue that has been prevalent since fiscal policies were invented, but with the evolution of money and the literal change of the monetary form, people are able to find new ways to commit this crime. Cryptocurrency is a digital currency that can be used to buy certain goods that have allowed it to have value. Because the IRS (International Revenue Service) in the United States and all countries have not allowed cryptocurrency to become certified or legal tender, this begs the question of whether or not crypto currency is actually taxable. The answer to this is yes. The IRS and other tax collection agencies all over the world have installed laws for this regarding any profits that are made from bitcoin. Seeing as bitcoin is a capital asset (property that increases in value) The IRS are allowed to tax all Bitcoin owners for their profits.

This tax law is something that is not followed by many Bitcoin holders. It is approximated by *Business Insider* and *Bitscan* That around 1.2 million people own significant amounts of Bitcoin. A very large percentage of people have been ignoring the laws with the IRS revealing that only 802 Bitcoin owners payed their taxes and to further enforce these laws, the IRS wants access to the personal accounts of people using cryptocurrencies. Bitcoin said no to this request for privacy reasons but the IRS then went to federal court to resolve the issue. Once they had won, Late in 2017 the IRS demanded over 14 thousand personal accounts to pay their taxes with immediate effect.

Since Bitcoin can also be converted to dollars, banks still require a tax return, so using one particular example,

If Person X buys 10 Bitcoin, this can be directly converted to 10000 dollars (this value is not to scale). Person X must Put 10000 dollars on their tax return to show to the IRS.



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Key Terms

Crypto Currency: A cryptocurrency is a digital or virtual currency that uses cryptography for security. A cryptocurrency is difficult to counterfeit because of this security feature. A defining feature of a cryptocurrency, and arguably its most endearing allure, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation.

Fiscal Fraud: Tax fraud occurs when an individual or business entity willfully and intentionally falsifies information on a tax return in order to limit the amount of tax liability. Tax fraud essentially entails cheating on a tax return in an attempt to avoid paying the entire tax obligation. Examples of tax fraud include claiming false deductions; claiming personal expenses as business expenses; and not reporting income.

Internal Revenue Service: The Internal Revenue Service (IRS) is a U.S. government agency responsible for the collection of taxes and enforcement of tax laws. Established in 1862 by President Abraham Lincoln, the agency operates under the authority of the United States Department of the Treasury, and its primary purpose includes the collection of individual income taxes and employment taxes. The IRS also handles corporate, gift, excise and estate taxes. People colloquially refer to the IRS as the "tax man."

Legal Tender: Legal tender is any official medium of payment recognized by law that can be used to extinguish a public or private debt, or meet a financial obligation. The national currency is legal tender in practically every country. A creditor is obligated to accept legal tender toward repayment of a debt. Legal tender can only be issued by the national body that is authorized to do so, such as the U.S. Treasury in the United States and the Royal Canadian Mint in Canada.

Capital Assets: Capital assets are significant pieces of property such as homes, cars, investment properties, stocks, bonds, and even collectibles or art. For businesses, a capital asset is a type of asset with a useful life longer than a year, that is not intended for sale in the regular course of the business's operation. For example, if one company buys a computer to use in its office, the computer is a capital asset, but if another company buys the same computer to sell, it is considered inventory.

Countries and Organizations Involved

Singapore

Probably, it was the first state that tried to solve the taxation issues of the crypto currency. And with the filing of a market participant, Coin Republic, which at the beginning of 2014 appealed to the IRAS tax authority of Singapore with a request to explain how to pay taxes when dealing with crypto-currencies.

IRAS explained that in the event that the crypto-currencies are included in the investment portfolio of the taxpayer, then, according to the laws of Singapore, the profits from the sale of coins are not taxed, since this is treated as a gain from capital gains. But



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if trade bitcoynami refers to the main or one of the main activities of the taxpayer, the profit from trading operations is taxed corporate tax.

Japan

In Japan, taxes on crypto-currencies prior to 1 July 2017 were levied in accordance with standard tax laws: fiz. persons who received income by crypto-currencies paid income tax, and profit jur. persons was subject to income tax. Sales of crypto-currency were also subject to an 8-percent consumer tax of JCT, but from 1 July this tax was abolished.

China

In China, there are no specialized tax norms for users of crypto-currencies yet. Market participants must pay income tax, income tax, capital gains tax. In China, when selling crypto currency, they can also impose a value added tax. Most likely, rough lawmaking tax activity will begin in China next year, when the change in the ruling circles of the country will end.

The United States:

In the US, the rules for the taxation of crypto-currencies were published in 2014. Taxes treat crypto-currencies as property, profits in this case are derived from capital gains, and not from exchange rate differences. Accordingly, users must pay taxes as property and notify their transactions to the US Internal Revenue Service (IRS). Miners in the US also have to pay taxes, with an annual gross income, if it was. Taxpayers who receive crypto-currencies for goods and services should include the value of the received crypto-currencies in the declaration, at the rate of the crypto-currency on the day of payment. In addition, the volatility of the crypto-currency entails the obligation to pay taxes on profits from capital gains. Those who work or pay for work bitcoynami, too, must pay payroll taxes. As well as those who pay bokkoynami rent and any other payments. Thus, taxes on crypto-currency in the US are very severe and for their non-payment of the offender can be punished.

On the other hand, since the crypto currency is treated as property, it is formal, using it to purchase any little thing, like a hamburger, leads to the need to display it in the user's annual tax return. If you follow the strict letter of the law, then using bitcoyn will turn into a tax nightmare.

The EU

In the EU, crypto currency is considered a currency, not a property. Capital gains tax and income tax are levied, but VAT is not. But the taxation in different countries of the European Union is different.

In Germany and Finland, for example, crypto-currencies are subject to a capital gains tax and a "wealth" tax.

In Austria income from crypto-currency is subject to income tax, since crypto-currencies from the point of view of tax services are an intangible asset.

In Spain information on the profit or loss of capital from sale of private deposits by private sellers are included in the annual tax return, the tax percentage is charged differently according to the volume of profit from growth, the larger the profit, the greater the percentage.

In Sweden bitcoyn in the status of currency is considered from 2013 year, but the approach to regulating crypto-currency is quite liberal. For example, the income from



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the issue of bitcoin by an ordinary user is not taxed, because such activity is considered a hobby. But if the passion develops into the business and brings from 25 bitokoyanov a year, then taxes are already levied.

Australia

The Australian Internal Revenue Service tax on income and income tax exposes income and profits received from transactions with crypto-currencies. They are not subject to capital gains taxes on crypto currency, if they are used as investments. The peculiarity of Australia was that it practiced double taxation - when exchanging crypto currency for Fiat and when buying goods and services for crypto-currencies, they took taxes. But recently the tax on the purchase of goods and services was canceled, so double taxation in Australia is no longer practiced.

The UK

In the UK, up to 2014, crypto-currencies were treated in a peculiar way, as single-purpose vouchers and were subject to VAT. Currently, the mining and exchange of kriptovaljut for the pound sterling is not subject to VAT, and the sale of services and goods for crypto currency is taxed. The profit from the crypto currency may be subject to a tax on growth, as well as corporate and income taxes.

Canada

In Canada, payment for goods and services by crypto currency is considered a barter transaction and is taxed accordingly. Salary in crypto-currencies is also subject to taxation. Mining for commercial purposes is subject to income tax as far as commercial purposes are determined in each specific case.

Related UN resolutions and Previous Approaches to Solving the Issue

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