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CRYPTOCURRENCY SERIES

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It has taken less than a decade since the creation of Bitcoin for cryptocurrencies to be introduced to the mainstream public. The cryptocurrency landscape may still be developing, but it is making its impact felt worldwide. Governments are also increasing scrutiny on the community.

What should members of the community do to make sure they stay on the right side of the law and comply with their obligations in areas such as accounting and tax? Our cryptocurrency series seeks to provide observations based on our experience on assisting members of the community in dealing with these challenges.

In the first of this series, we address some issues every cryptocurrency holder should consider.

PART 1: SO YOU ARE A CRYPTO-MILLIONAIRE

There are many routes to becoming a crypto-millionaire. Perhaps you were an early buyer, a large scale trader, or even a miner. Regardless of your path to riches, you may not have found a need to prepare accounts or pay taxes on your activities. Very often, this is because the coins were probably not worth very much when you bought them and it wasn't worth the effort.

This has changed with the surge of cryptocurrency prices in 2017. The coins are worth a lot more now. What used to be enough coins to buy a pizza is now enough to buy a pizza restaurant. This changes how you should manage your affairs.

WHAT SHOULD I BE CONCERNED ABOUT?

The owning and trading of cryptocurrencies is legal in most countries. However, anti-money laundering rules and tax laws still apply.

If you intend to convert your holdings to fiat currency*, what you own may be so significant that banks are not willing to accept the deposits for fear they are receipt of money laundering. If you intend to hold, you should be aware that there is growing scrutiny by governments over cryptocurrencies and few are truly private.

Growing governmental scrutiny over cryptocurrencies and the large profits experienced by cryptocurrency holders means there is a growing likelihood that tax authorities would look to cryptocurrency holders for revenue. Cryptocurrency traders and miners are particularly susceptible as these activities are likely to be subject to tax. If tax is due and not filed on time, penalties may apply.

* Traditional currencies issued by national governments (e.g. SGD and USD)

WHAT SHOULD I DO?

The first order of business is to prepare your accounts. Allow both yourself and your bankers to understand what is going on in your affairs and how you obtained your wealth. This will also be the first step in understanding if you have any tax exposure.

Do this soon. Things move fast in the world of cryptocurrencies but it still takes a long time for accounts to be prepared. Much safer to do it earlier and be prepared than to have to wait for months to cash out if you intend to do so in the future.

Once this is done, get a tax opinion. In our experience, cryptocurrency holders are a varied bunch and have their lives and activities spread all over the world. This makes it difficult to determine whether tax is due and where tax is due. If there is tax due, you have time to comply, if there is no tax due, you can feel free to enjoy the full extent of your gains.

HOW WE CAN HELP

BDO Singapore is part of the international BDO network of independent member firms, the world's fifth largest accounting network worldwide. We are able to tap our expertise from more than 160 countries in the world to provide both tax and accounting advice. We are currently working with both cryptocurrency traders and issuers to ensure compliance with their accounting and tax obligations and would be happy to explore how we can assist you as well.

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