Transactions Involving Bitcoins

As discussed, for your information we are writing to provide you with a summary of comments that were provided in response to a recent media enquiry describing the income tax consequences under the Income Tax Act and the GST/HST implications under the Excise Tax Act of various transactions involving virtual currencies such as Bitcoins. The information regarding the GST/HST implications was provided by the Excise and GST/HST Rulings Directorate.

Questions on Bitcoins (As Received):

1. **How to account for using the currency** if you buy or sell something? (i.e.: if someone is paying you in Bitcoins - do you need to charge HST/GST? How do you declare that currency as income? If you are using it to pay for something that qualifies for a tax deduction - such as a
donation - how do you declare it?)

2. Given the enormous appreciation of the currency - how does Capital Gains tax apply? Do you have to declare this asset? If so, when and how?

Responses Provided:

Buying and Selling Goods or Services in Exchange for Bitcoins

Income Tax Implications

Virtual currencies, such as Bitcoins, are not considered to be a currency issued by a government of a country, such as American dollars. As such, they are generally treated as a commodity for purposes of the Income Tax Act. Therefore, using Bitcoins to purchase goods or services would be treated as a form of barter transaction. For general information please see our online fact sheet, "What you should know about digital currency".

The CRA's position with respect to the income tax implications of a barter transaction is outlined in Interpretation Bulletin IT-490, "Barter Transactions". The principle of a barter transaction is described in paragraph 3 of IT-490 as one where "two persons agree to a reciprocal exchange of goods or services and carry out that exchange usually without using money". The CRA takes the view that barter transactions fall within sections 3 and 9 of the Income Tax Act for the purposes of determining whether an amount has been paid as consideration for goods or services.

In a barter transaction between persons who are dealing with each other at arm's length, it is a fundamental principle that each of those persons considers that the value of whatever is received is at least equal to the value of whatever is given up. For Canadian tax purposes, those values must be stated in Canadian dollars. Where an amount must be brought into income, that amount is the price that the taxpayer would normally have charged an arm's-length person for the goods or services. If a Canadian business sells its goods or services in exchange for Bitcoins, that business has to report its income from that transaction in Canadian dollars.

Example:

Mr. A is a sole proprietor who owns and operates a bookstore in Ontario. Ms. B buys a book from the bookstore using Bitcoins. The value of the
book is $20.

Mr. A would treat the transaction as if he had been paid $20 in Canadian dollars for the book.

GST/HST Implications

In those transactions where a taxable supply of a good or service is made and the consideration for that supply is Bitcoins, the consideration for the supply is deemed to be equal to the fair market value of the Bitcoins at the time the supply is made for the purposes of determining the GST/HST payable for the supply.

Example:

For example, if a GST/HST registrant sells a good for 10 Bitcoins and the sale is subject to GST/HST, the registrant will be required to collect the GST/HST calculated on the fair market value of the 10 Bitcoins at the time of the sale. The registrant will be required to include in its net tax remittance the GST/HST collectible and the recipient, if a registrant, would be eligible to claim an input tax credit for the GST/HST to the extent the good is for consumption, use or supply in the recipient's commercial activities.

Donation of Bitcoins

Income Tax Implications

*Bitcoins can be the subject of a gift* to a qualified donee. If Bitcoins are transferred to a qualified donee, it is the *fair market value of the Bitcoins themselves at the time the Bitcoins are transferred* that must be used in determining the eligible amount of the gift for tax purposes. If Bitcoins are used to acquire property and the acquired property is transferred to a qualified donee, the property that is the subject of the gift will be the acquired property and it is the fair market value of the acquired property that is relevant in determining the eligible amount. The determination of *fair market value is a question of fact.* Furthermore, the fair market value of the property gifted is subject to a deeming rule which, if applicable, will cause the eligible amount of the gift to be less than its fair market value. For more information on gifts in kind and related rules, please see Pamphlet P113, Gifts and Income Tax.
GST/HST Implications - None given.

Buying and Selling Bitcoins

Income Tax Implications

Where a person trades or sells Bitcoins like a commodity (i.e., speculating on the changes in the value of Bitcoins), the resulting gain or loss may be on account of income or capital. Determining whether such a transaction is on account of income or capital can only be made following an assessment of all the facts relating to the particular taxpayer's circumstances. Paragraphs 9 to 32 of Interpretation Bulletin IT-479R, "Transactions in securities", provide general comments for purposes of determining whether transactions are income or capital in nature.

The determination of the income tax consequences relating to the treatment of gains and losses arising from the purchase and sale of Bitcoins would be generally the same as for transactions involving other types of commodities.

Example:

Mr. X bought a Bitcoin on June 1, 2013 for $100. Mr. X then sold the Bitcoin on December 1, 2013 for $500.

Based on his particular facts and circumstances, Mr. X determined that the gain was on account of capital.

Mr. X has a capital gain since he sold a capital property for more than the total of its adjusted cost base and the outlays and expenses incurred to sell the property.

Mr. X's capital gain is $400 ($500 less $100). Mr. X will need to report $200 as a taxable capital gain (only 1/2 of the capital gain is taxable) on his 2013 Income Tax and Benefit Return.

GST/HST Implications - None given.

Sincerely,

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