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Tax Window Files

Date: August 21, 2019

2018-0776661I7 Bitcoin Mining

LANGIND E

DOCNUM 2018-0776661I7

REFDATE 190808

SUBJECT Bitcoin Mining

SECTION 3, 9(1)

Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA.

Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES: Whether a Bitcoin "miner" should include the value of a Bitcoin in income when it is mined.

POSITION: Yes.

REASONS: The Bitcoin is received by the "miner" as consideration for services rendered.

Mr. Minguy Choi HEADQUARTERS

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2018-077666

August 8, 2019

Dear Mr. Choi:

Re: Bitcoin mining

This is in reply to your email in which you requested our views on whether a taxpayer who is in the business of Bitcoin "mining" should include the value of "mined" Bitcoin in income at the time it is received.

Bitcoin is a type of cryptocurrency that is not legal tender but is designed to operate similarly to conventional currencies issued by governments and that works as a medium of exchange. Bitcoin is a blockchain-based virtual currency in which a record of transactions is maintained and new units of currency are generated by the computational solution of mathematical problems. Cryptocurrencies, such as Bitcoin, operate independently of a central bank and are often used as a method of payment for goods and services.

Our understanding is that mining involves using specialized computers to solve complicated mathematical problems which confirm cryptocurrency transactions. Miners group cryptocurrency transactions into blocks, and try to guess a number that will create a valid block. A valid block is accepted by the corresponding cryptocurrency's network and becomes part of a public ledger, known as a blockchain. By mining, a miner is monitoring and validating transactions occurring on the network.

Generally, when a miner successfully creates a valid block, they will receive two types of payments. One payment represents the creation of

new cryptocurrency on the network and the other payment represents the fees from transactions included in the newly validated block. Those who perform the mining processes are paid in the cryptocurrency that they are validating.

In our view, Bitcoin received by a miner to validate transactions is consideration for services rendered by the miner. Where a taxpayer is in the business of Bitcoin mining, the Bitcoin received must be included in the taxpayer's income at the time it is earned under section 3 and section 9 of the Income Tax Act.

A barter transaction occurs when two parties agree to exchange goods or services and carry out that exchange without using legal tender. As cryptocurrencies are not legal tender, it follows that when a cryptocurrency is used to pay for, or is received as payment for, goods or services, this is treated as a barter transaction.

As stated in paragraph 5 of Interpretation Bulletin IT-490 Barter Transactions, "[I]n the case of services bartered by a taxpayer for either goods or services, the value of those services must be brought into the taxpayer's income where they are of the kind generally provided by him in the course of earning income from, or are related to, a business or a profession carried on by him." Paragraph 8 of IT-490 notes that, "[W]here the goods or services given up cannot readily be valued but the goods or services received can, the Department will normally accept the latter as being the price at which the transaction took place if the parties were dealing at arm's length."

Accordingly, where a taxpayer who is in the business of Bitcoin mining

receives Bitcoin as a result of their mining activities, they must bring into income the value of the services rendered or the value of the Bitcoin received, whichever is more readily valued. In most cases, we expect the value of the Bitcoin received to be more readily valued and, accordingly, this is the amount to be brought into income.

We trust our comments will be of assistance.

Yours truly,

Pamela Burnley

Manager

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