

# CRYPTO ASSETS



Over the past few months, we have seen an increase in the use of cryptocurrencies and crypto assets, but what exactly is cryptocurrency or crypto assets? Furthermore, what is the tax treatment of these assets?





# WHAT IS CRYPTOCURRENCY???

*“Cryptocurrency is a digital asset designed to work as a medium of exchange wherein individual coin ownership records are stored in a ledger existing in a form of computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership.” –*  
Wikipedia

Cryptocurrency is a form of payment that can be exchanged online for goods and services. If you have ever been to an arcade where you traded money for a token to play games, then you should have an idea of how cryptocurrencies work.



# WHAT ARE THE TAX IMPLICATIONS???

We need to identify whether cryptocurrency is seen as an asset (such as a tree that bears fruit) or income (such as the fruit that is picked from the tree) for income tax purposes.



**ASSET**



**INCOME**

Is the cryptocurrency being held for capital investment where the owner capitalises on the growth in value of the cryptocurrency.

Is the cryptocurrency being held for sale or exchange for cash (normally by miners)



# WHAT ARE THE TAX IMPLICATIONS???

If the cryptocurrency is being held for sale then the cryptocurrency will be classified as trading stock (the fruit) and it will be subject to normal income tax rules.

If the cryptocurrency is being held for capital investment then the cryptocurrency will be classified as an asset (the Tree) and will be subject to Capital gains tax when it is sold.

When cryptocurrency is used to purchase goods or services then normal barter transaction rules will apply. The proceeds will equal to the market value of the asset that is being received (purchased using cryptocurrency) and the expenditure will equal to the value of the asset that is being disposed of.

*Note: SARS amended the Income Tax Act, 1962 (Act), to include cryptocurrencies in the definition of "financial instrument" in section 1(1).*





# CONCLUSION

In conclusion if your main aim is to mine for crypto assets then your asset will be treated as trading stock and normal income tax rules will apply and if you are holding crypto asset like shares and waiting on the value of the asset to increase in value over time then you will have to account for capital gains tax as and when you sell the crypto asset.

Normal Capital Gains Tax rules will apply when one disposes of the crypto asset both gains and losses will be accounted for based on the applicable sections in the TAA.

Even though SARS doesn't acknowledge cryptocurrencies and crypto assets as an acceptable form of payment but there are provisions to account for them.



# THANK YOU

Instagram:  
[@thecomplianceclinic](#)

Twitter:  
[@ thecompclinicza](#)

