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## 6 April 2018 – SARS's stance on the tax treatment of cryptocurrencies

**PRETORIA, 06 April 2018** – The South African Revenue Service (SARS) will continue to apply normal income tax rules to cryptocurrencies and will expect affected taxpayers to declare cryptocurrency gains or losses as part of their taxable income.

The onus is on taxpayers to declare all cryptocurrency-related taxable income in the tax year in which it is received or accrued. Failure to do so could result in interest and penalties.

Taxpayers who are uncertain about specific transactions involving cryptocurrencies may seek guidance from SARS through channels such as Binding Private Rulings (depending on the nature of the transaction).

Increased attentiveness and speculation regarding the future of cryptocurrencies has prompted calls for SARS to provide direct answers to how cryptocurrencies should be treated for tax purposes. However, as indicated in this media statement, there is an existing [SARS AI Assistant](#) that can guide SARS and affected taxpayers on the tax implications of cryptocurrencies, making a separate Interpretation Note unnecessary for now. Cryptocurrency (typified by Bitcoin) is an internet-based digital currency that exists almost wholly in the virtual world. Proponents support its use as an alternative currency that can pay for goods and services much like conventional currencies.

In South Africa, the word "currency" is not defined in the Income Tax Act (the Act). Cryptocurrencies are neither official South African tender nor widely used and accepted in South Africa as a medium of payment or exchange. As such, cryptocurrencies are not regarded by SARS as a currency for income tax purposes or Capital Gains Tax (CGT). Instead, cryptocurrencies are regarded by SARS as assets of an intangible nature. Whilst not constituting cash, cryptocurrencies can be valued to ascertain an amount received or accrued as envisaged in the definition of "gross income" in the Act.

Following normal income tax rules, income received or accrued from cryptocurrency transactions can be taxed on revenue account under "gross income".

Alternatively such gains may be regarded as capital in nature, as spelt out in the Eighth Schedule to the Act for taxation under the CGT paradigm. Determination of whether an accrual or receipt is revenue or capital in nature is tested under existing jurisprudence (of which there is no shortage). Taxpayers are also entitled to claim expenses associated with cryptocurrency accruals or receipts, provided such expenditure is incurred in the production of the taxpayer's income and for purposes of trade.

Base cost adjustments can also be made if falling within the CGT paradigm.

Gains or losses in relation to cryptocurrencies can broadly be categorised with reference to three types of scenarios, each of which potentially gives rise to distinct tax consequences:

(i) A cryptocurrency can be acquired through so called "mining". Mining is conducted by the verification of transactions in a computer-generated public ledger, achieved through the solving of complex computer algorithms. By verifying these transactions the "miner" is rewarded with ownership of new coins which become part of the networked ledger.

This gives rise to an immediate accrual or receipt on successful mining of the cryptocurrency. This means that until the newly acquired cryptocurrency is sold or exchanged for cash, it is held as trading stock which can subsequently be realized through either a normal cash transaction (as described in (ii) or a barter transaction as described in (iii) below.

(ii) Investors can exchange local currency for a cryptocurrency (or vice versa) by using cryptocurrency exchanges, which are essentially markets for cryptocurrencies, or through private transactions.

(iii) Goods or services can be exchanged for cryptocurrencies. This transaction is regarded as a barter transaction. Therefore the normal barter transaction rules apply.

### Value-Added Tax (VAT)

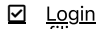
The 2018 annual budget review indicates that the VAT treatment of cryptocurrencies will be reviewed. Pending policy clarity in this regard, SARS will not require VAT registration as a vendor for purposes of the supply of cryptocurrencies.

For more information, please see the [frequently asked questions \(FAQs\)](https://www.sars.gov.za/2018-legal-faqs-cryptocurrencies/). (<https://www.sars.gov.za/2018-legal-faqs-cryptocurrencies/>).

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