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Bitcoin and other Virtual Currencies' Tax Future

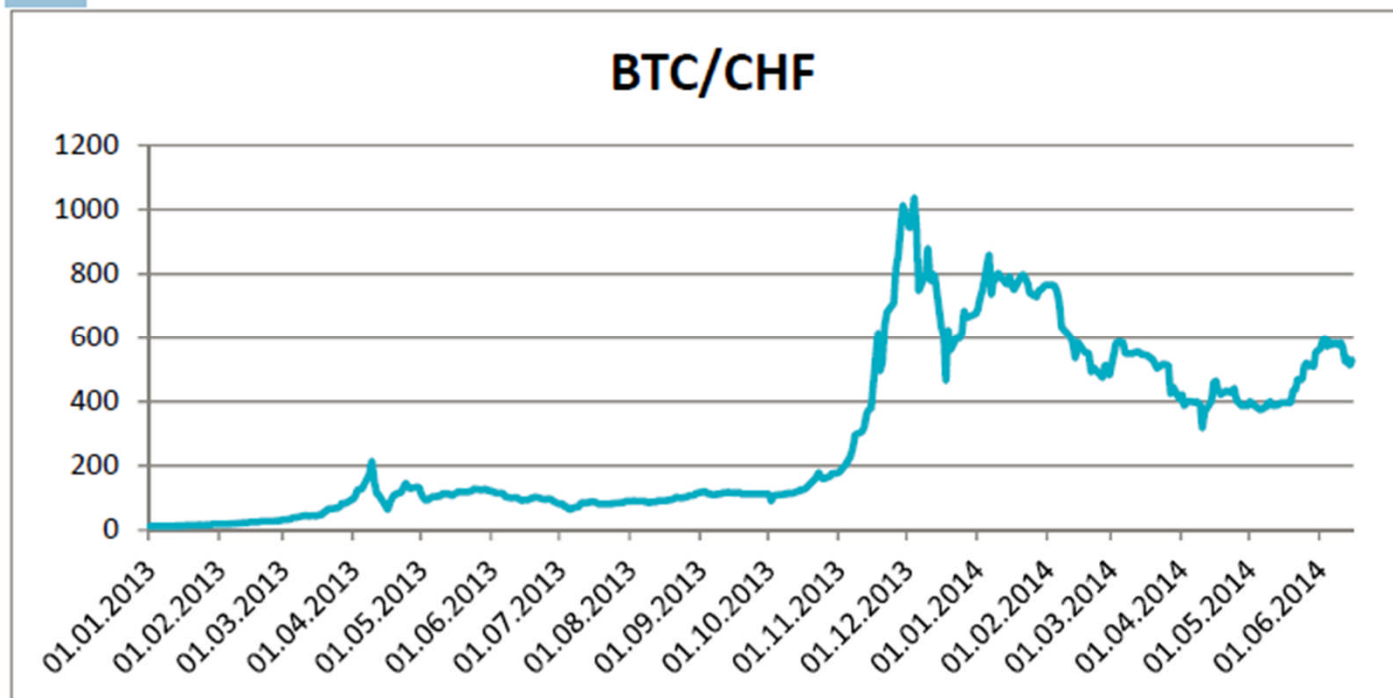
August 2014



Virtual currencies

Pro's and con's for customers

Abbildung 1: Kursentwicklung des Bitcoins (BTC) in Franken (CHF), Januar 2013 bis Juni 2014



Quelle: Coindesk.com

[Link: BTC Echo](#)

The rise of virtual currencies ***1800 billion market***

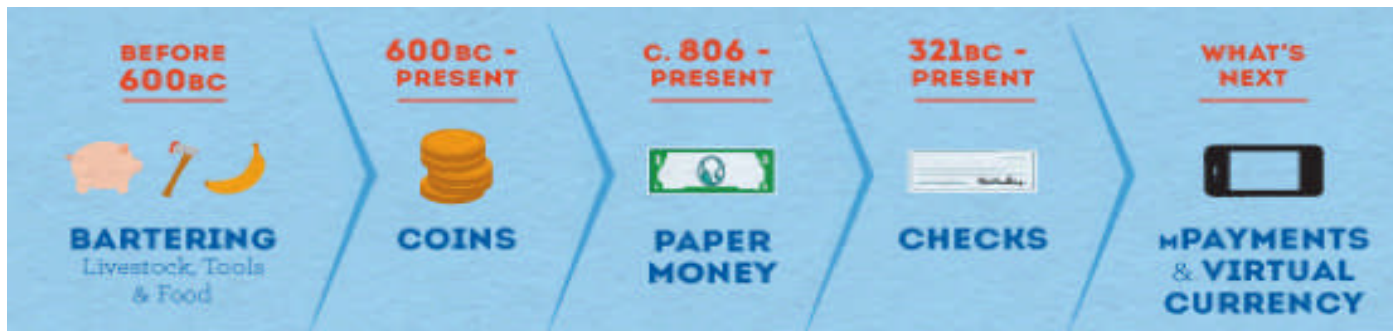
World Retail Banking Report 2014 (CapGemini) - negative client experience 60.5%
- generation Y

Facebook applied for e banking license in Ireland
Amazon opening Amazon account for third party payments
“M-Pesa” – SMS payment (2/3 of all adults in Kenya)



The rise of virtual currencies

A brief history in time



“If the banks don’t change, we’ll change the banks.”

Jack Ma, co-founder of Alibaba



- Alipay (part of Alibaba), launched in 2004 with no transaction fees
- Biggest market share in China: 300M users & it controls approx. 50% of the Chinese online payment market * (* Credit Suisse – Feb. 2014)
- Provides an escrow service – payment only released to seller if the customer is happy with the goods purchased



Virtual currencies

New virtual currency

Litecoins, Peercoins, Ripples, Dogecoins, Mastercoins, Nxts, Namecoins, BlackCoins, Bit-Shares-PTS, Quarks, Primecoins, Counterparties, Feathercoins, Marinecoins, Zetacoins, Vertcoins, Megacoins, DarkCoins, Novacoins, Infinitecoins, WorldCoins, MaxCoins, YbCoins, FlutterCoins, WhiteCoins, Ixcoins, Mintcoins, Billioncoins, Auroracoins, Devcoins, Anoncoins, PotCoins, Faircoins, Terracoins, Zeitcoins, CommunityCoins, Applecoins, Tickets, GoldCoins, Nases, Digitalcoins, Freicoins, HoboNickels, Unobtaniums, Particles, NetCoins, ECCoins, USDes, UltraCoins, Myriadcoins, NobleCoins, UnionCoins, Cryptogenic Bullion, CaiShen, Mona-Coins, AsiaCoins, SecureCoins, Einsteiniums, Coins 2.0, MicroCoins, FedoraCoins, BitBars, BBQCoins, Mincoins, Karmacoins, TagCoins, RedCoins, ReddCoins, Saturncoins, DigiBytes, HunterCoins, Sexcoins, Heavycoins, Kittehcoins, MemoryCoins, MazaCoins, Bitcoin Scripts, Riecoins, Yacoins, Pawncoins, Mooncoins, Execoins, Hirocoins, Top-Coins, LottoCoins, Fastcoins, DopeCoins, EarthCoins, KlondikeCoins, Isracoins, FlappyCoins, Deutsche eMarks, 42 Coins, GroestlCoins, Pandacoins, Diamonds, Blakecoins, TeslaCoins, DNotes, etc.

Virtual currencies

New virtual currency

Czech Crown Coin

is internet currency design to empower Czech people and business in the Czech Republic.



- 19 August – first set of pre-mined 100.000 CZC offered to public (sold out within 9.5 hours!)

The rise of virtual currencies - China



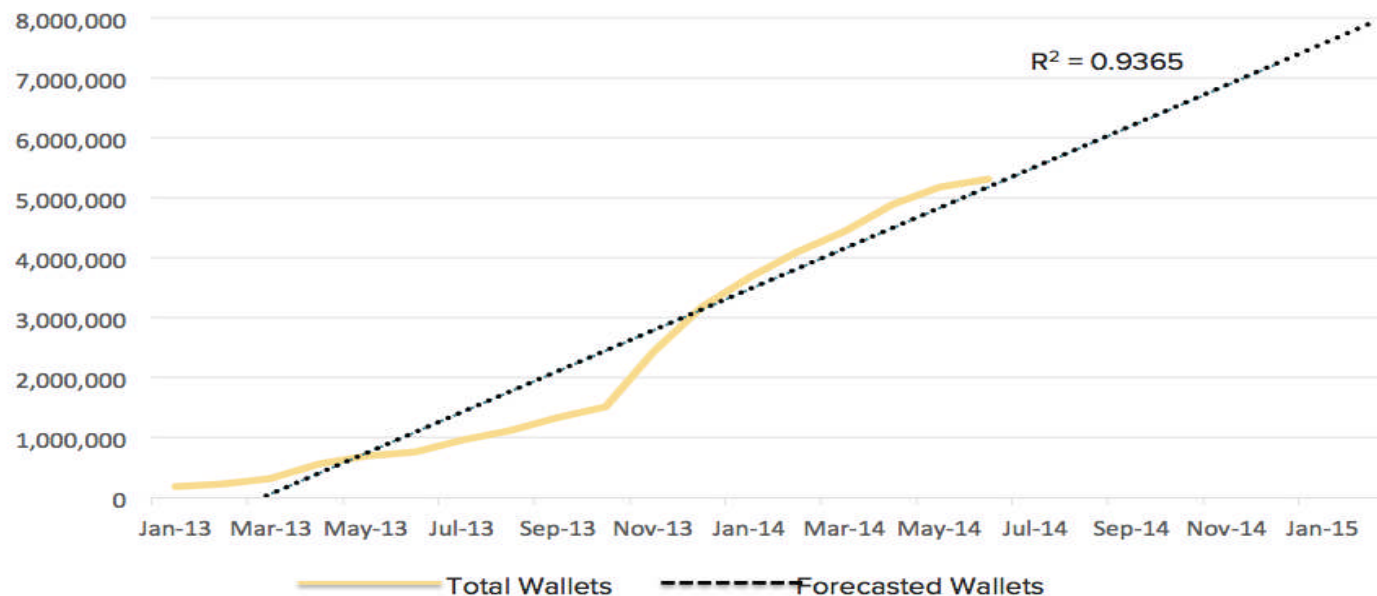
No official VAT / tax treatment of virtual currencies in China

Key concerns of the Chinese government:

- money-laundering,
- capital controls,
- lack of fundamental value,
- extreme price swings

The rise of virtual currencies

Approximately 8 million wallets
forecasted by Dec. 2014



Sources and Notes: total wallets based on data from Blockchain.info, MultiBit.org, Coinbase.com, Andreas Schildbach (Android Bitcoin Wallet developer). Historical Coinbase data provided by BitcoinPulse.com.

Virtual currencies

Parties involved & issues to consider



Customer

- Acquiring goods/services
- Bitcoins as investments



- Bitcoin investment products



Sale/Exchange of Bitcoins/legal currency

- Anti-Money Laundering



BITCOIN MINER

- Verifying transactions
- Generating new Bitcoins



Retailer/ suppliers

- Pricing issues
- Exchange for legal currency

Virtual currencies

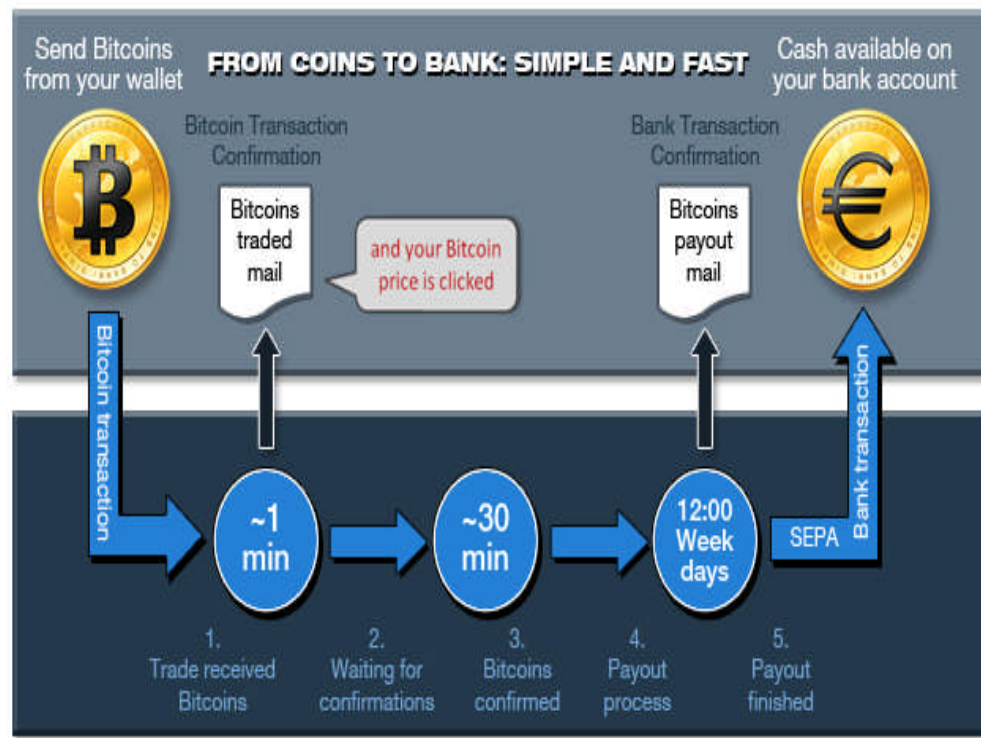
How does it work

- Bitcoin - first decentralized digital currency (21 million coins)
- Value determined by the market
- Peer-to-peer network (no central authority; all functions performed by network; anybody can join)
- All operations recorded in a public database called block chain
- New block added to the chain when cryptographic algorithm is solved by miners
- New Bitcoin generated to the miner when new block is attached to the chain



VAT specific related issues to Virtual currencies

Transaction	Remuneration
Sending BTC to the BTC exchange	
BTC are sold on the BTC exchange	BTC exchange will receive a transaction fee
Transaction takes place and is taken care of by the miners	Network transaction fee (fee for creating a BTC block)
Seller receives \$ on his bank account	



Virtual currencies

Pro's and con's for suppliers



Pro's	Con's
Low transaction fees	No central entity backing it
No payment reversals	Dynamic product pricing
Easy to set up	No legal tender in some countries
Daily cash outs (almost instant)	Tax treatment (uncertain depending on transaction)
New customers (community)	

Virtual currencies

Pro's and con's for customers



Pro's	Con's
No/low fees involved	No central back-up
Fast international money transfer	High volatility
Account owner is unknown	Irrecoverable if password is lost

Expansion

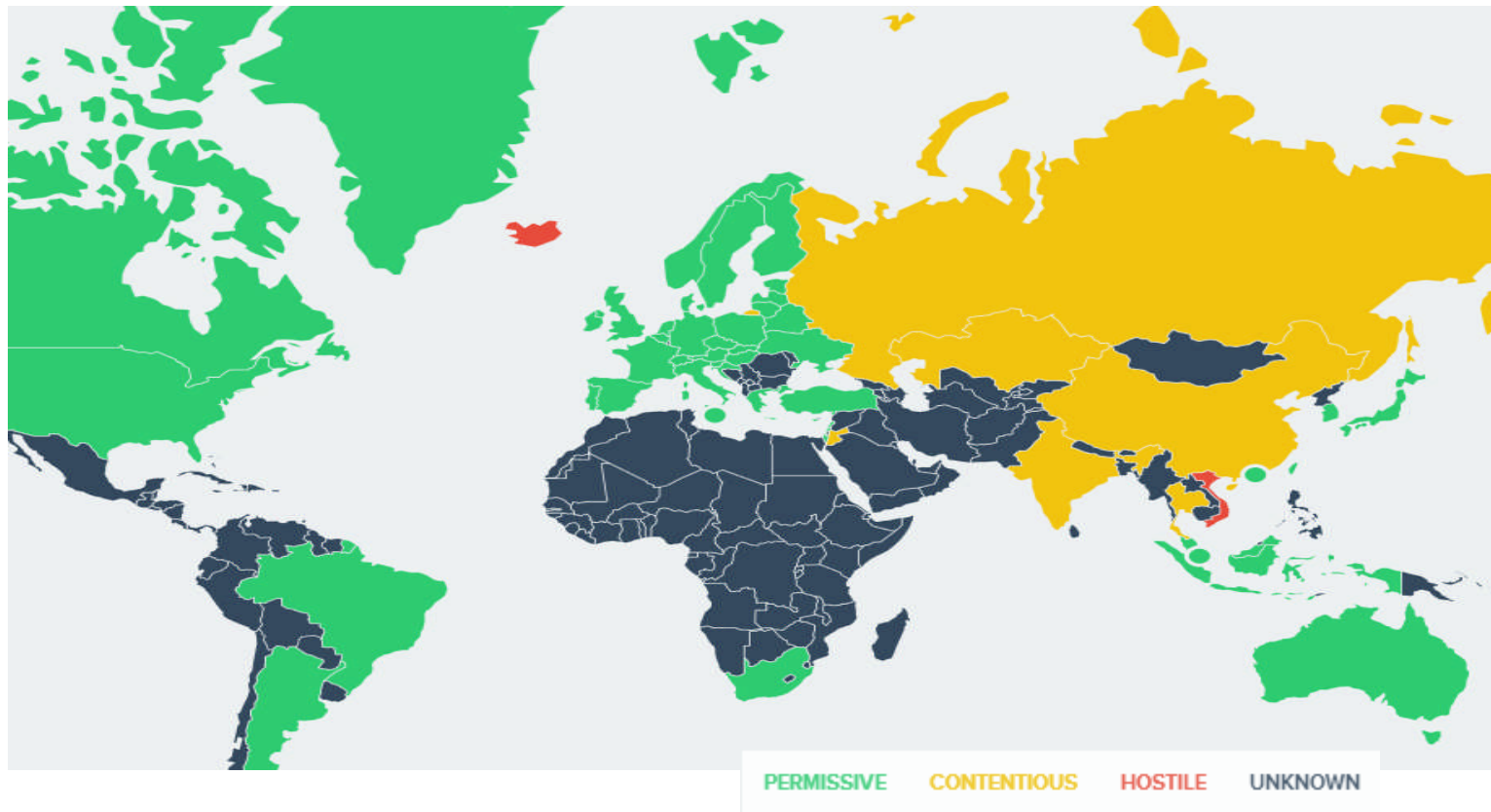


[Link: CoinMap](#)

Virtual currencies

Position of official institutions – Governments

- Legal acceptance & regulatory matters



Virtual currencies

Ecuador

- Ecuador intends to introduce its own virtual currency which would be however acknowledged as a legal tender
- Since 2000 Ecuador's legal tender is the US Dollar (the original legal currency - Sucre was abolished after hyperinflation)
- New law introducing the virtual currency as a legal tender was accepted by the Parliament and now needs solely the President's signature in order to enter into force



Virtual currencies

Position of official institutions – Switzerland



Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Virtual currencies

Position of Governments



If you are interested to know more on these topics

- <http://ebiz.pwc.com/>
- <http://michaelamerz.org/>



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USA: Webcast – EU 2015 B2C VAT changes and what they mean for US based businesses

Posted on 28 February 2013 by Nathan A. Trautwein | Category: Events | Tags: 2015, eservices, EU, US businesses and VAT, USA, VAT, webcast

Please join PwC's Value Added Tax Practice for a **webcast** on Thursday, March 14th from 12:00 to 1:00pm ET.

Webcast will focus on the challenges that sellers of electronically delivered content face when selling to customers in the European Union and elsewhere.

The European Union (EU) has long required EU established businesses to account for VAT, at the rate where the business is established, on sales of electronically supplied services (eservices), such as mobile applications, downloadable or cloud accessible games and music, and subscriptions to websites, to private individuals located in the EU. Special treatment applies to sales of eservices to business customers. Since 2003, the EU created new procedures for non-EU established sellers, which have created various challenges. For example, non-EU sellers have experienced difficulties determining whether a sale qualifies as eservices. [...]

Find out more

Featured: EU 2015 B2C VAT changes – it's sooner than you think!

Posted on 28 February 2013 by Guus van der Mast | Category: Publications | Tags: 2015, B2C, EU, MOSS, Netherlands, VAT

On 1 January 2015 the final phase of the so-called VAT package will come into force and will involve important changes in the VAT treatment of intra-EU business-to-consumer ("B2C") supplies in relation to telecommunications, broadcasting and electronic services.

From that moment on, all telecommunications, broadcasting and electronic services provided to non-taxable persons will be taxable at the place where the customer is established, has his permanent address or usually resides. Affected businesses will therefore be required to charge, report and pay local VAT in every Member State in which they have customers, which may result in multiple VAT-registrations throughout the EU.

In order to be "B2C-2015-proof" in time it is essential to act as soon as possible. In our flyer we describe the most important points of attention that will assist you in determining if you are ready [...]

Find out more

EU Commission refers France and Luxembourg to the European Court of Justice over reduced VAT rates on ebooks

Posted on 28 February 2013 by Tom Borec | Category: News & alerts | Tags: ebooks, ECJ, EU, EU Commission, VAT

As reported, France and Luxembourg have started to apply reduced and super reduced VAT rates to ebooks without obtaining an approval from the rest of EU. This gave them competitive edge over the rest of the EU countries, as companies which were selling ebooks to their EU B2C customers from those two countries could sell them at the lowest available VAT rates (3% for sales from Luxembourg and 6% for sales from France). This (in words of the European Court of Justice) is a clear violation of EU law.

Find out more

Contact

Tom Borec
Global blog contact
Tel: +41 58 7924 259

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Contacts



Michaela Merz

michaela.merz@ch.pwc.com

+41 58 792 4429

