



TAXATION OF CRYPTOCURRENCIES

Work in progress...

CRYPTOCURRENCY ?

Cryptocurrency / Virtual or Digital Currency / Payment Token

Money-Like Currency or Official Currency

- Used to pay for goods or services
- Exchanged for another currencies

WHAT CRYPTOCURRENCY IS **NOT** :

(In the eyes of the Israel Tax Authority)

It is not an Official Currency



WHAT IS CRYPTOCURRENCY ?

(In the eyes of the Israel Tax Authority)



ASSET

- Capital Income subject to Capital Gains tax rate – 25%
- Business Income classification for Trading / Mining activities (up to 50%)
- Barter classification for goods and services paid in cryptocurrency
- Documentation requirements

FOREIGN CURRENCY ?

(Definition)

According to the Bank of Israel Law

(Unofficial Translation)

Foreign Currency:

“banknotes or coins which are legal tender in a foreign country and are not legal tender in Israel”

What's the **Benefit** ?

Tax exemption on Linkage Differentials & Exchange Rate

0% or 25% tax that is the question

WHAT IF

Foreign country **recognizes** crypto as a legitimate currency

“Coins which are legal tender in a foreign country...”

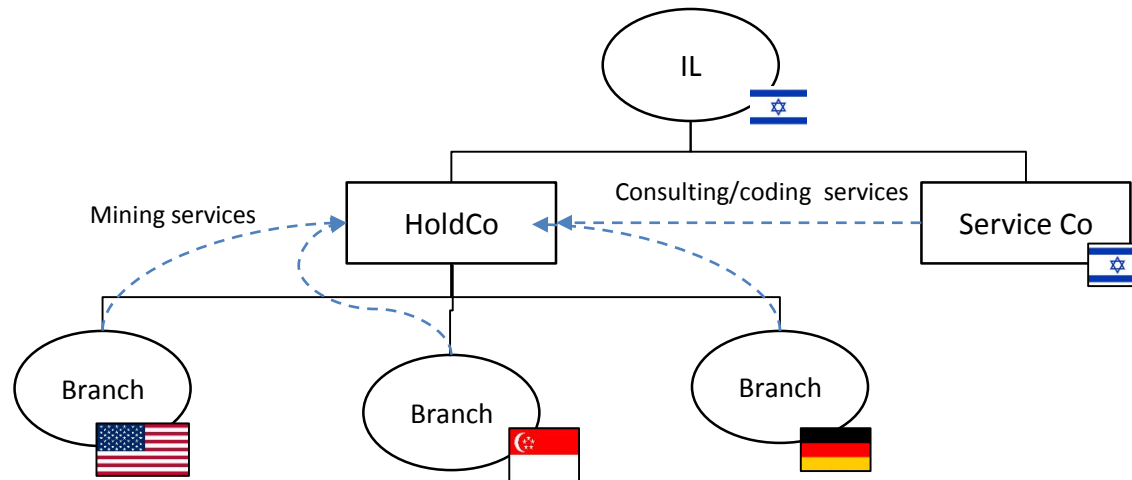
Weakens Israel Tax Authority’s current position

Example: JAPAN








Japan’s Financial Services Agency enacted a law authorizing the use of digital currency as a method of payment, essentially granting it the same legal status as any other currency

Proposed HOLDING STRUCTURE



Proposed Jurisdictions

	 Switzerland	 Estonia	 Belarus	 Gibraltar	 Malta
Tax base	Worldwide	Worldwide	Worldwide	Territorial	Worldwide
Corporate income tax ("CIT") rate	24% - 8.5%.	0% - CIT applies only upon distribution of the profits.	The CIT rate for companies is 18% and 25% for banks and insurance companies.	The rate for companies is in general 10%.	Companies are taxed at a flat rate of 35%. This rate can be effectivity reduced up to 5% upon distribution of the profits.
Does the Jurisdiction tax mining activity and upon the sale of the Cryptocurrency?	Yes. Net income should be subject to CIT.	Yes. Net income should be subject to CIT <u>only upon distribution</u> of the profits.	Mining, sale and acquisition of cryptocurrencies by "HTP residents" are all exempt from profit tax and VAT until January 1, 2023.	No formal position but seems to be taxable as a trade.	No formal position but seems to be taxable as a trade.
Does VAT apply on Mining activity or upon the conversion of Cryptocurrency to Fiat	Mining – The Swiss Federal Tax Administration has not yet adopted a stance on this matter. Based on literature and nearby countries court cases, mining is not subject to VAT due to the lack of an identifiable service recipient. The exchange of one (virtual) means of payment to another (legal) means of payment is not subject to VAT.	Conversion to fiat – Should be treated as VAT exempt in terms of article 135(1)(e) of the EU VAT Directive*. Mining activity – no clear position, would require further examination.	Mining, sale and acquisition of cryptocurrencies by HTP residents are all exempt from profit tax and VAT until January 1, 2023.	N/A	Conversion to fiat – Should be treated as VAT exempt in terms of article 135(1)(e) of the EU VAT Directive*. Mining activity – no clear position, would require further examination.
Double tax treaty with Israel	✓	✓	✓	X	✓

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THANK YOU