Warning to cryptocurrency owners as tax time arrives

The millions of Australians with crypto in their digital wallets have been warned about a tax-time crackdown.

Crypto owners are being warned of a tax-time crackdown as millions of Australians prepare their end of financial year returns.

The Australian Taxation Office has warned Australians that capital gains – including crypto – are one of their biggest priorities this tax time, and have crypto holders who may have omitted cryptocurrencies in prior tax returns in their sights.

With an estimated 4.5 million Australians estimated to currently invest in cryptocurrency, the ATO has used a data-matching program since 2019 to monitor crypto transactions, and ensure tax law compliance.

The ATO program allows the tax office to obtain data from cryptocurrency exchanges and match it with taxpayer records in order to pinpoint discrepancies.

Experts have warned "there are no excuses" if gains or losses from crypto transactions are omitted in an individual's tax returns.

Danny Talwar, head of tax at crypto tax calculator Koinly, said one of the most common mistakes Australian crypto owners made was simply not understanding the country's capital gains rules, and how they apply to digital currencies.

He said while most Australian investors were aware that converting crypto into Australian dollars needed to be reported to the ATO, most people didn't know that they also needed to report any instance where one cryptocurrency has been used to purchase another.

"From a tax perspective, you must record the purchase price, sale price and the market value of the second crypto asset you've acquired," he said.

"Not keeping proper records is a big mistake when it comes to tax time.

"With the ease of trading crypto on exchanges, it's easy to forget what you've done in crypto during the financial year.

“However, this will be no excuse to the ATO and it’s important to keep proper records of crypto trades during the tax year to stay compliant with the law.”

Mr Talwar said using a crypto tax calculator would save users a “tremendous” amount of time and help them stay compliant with the tax law.

Koinly has a Crypto Tax Calculator at a modest price.

https://koinly.io/au/?hsa_ver=3&utm_medium=brand-def-australia&utm_medium=ppc&hsa_ad=621999774951&hsa_acc=1318975688&hsa_src=g&hsa_cam=15081352942&hsa_tgt=kwd-1236389364944&hsa_kw=koinly%20tax%20report&gclid=EAIaIQobChMIuYW4zv3s_wIVWXRgCh26QQKeEAAYASAAEgK4_PD_BwE&hsa_grp=137733779700&utm_term=koinly%20tax%20report&hsa_mt=e&hsa_net=adwords&utm_source=adwords&utm_source=adwords&utm_campaign=Brand%20Defence%20Campaign%20-%20Koinly

What is cryptocurrency?
Cryptocurrency, or crypto for short, is digital currency that does not rely on banks to verify transactions. It is facilitated by peer-to-peer sales that can enable anyone anywhere in the world to send and receive payments via the internet. Crypto uses a decentralised system to record transactions and issue new units, called ‘coins’ or ‘tokens’. Advanced coding and encryption behind transactions and digital ‘wallets’, where you store crypto, aims to give holders total security over their coins.

How does crypto work and what is the blockchain?
Cryptocurrencies are distributed on a public ledger, called ‘the blockchain’. It is a record of all crypto transactions updated and held by holders that is secure and encrypted.

Is cryptocurrency tangible?
No, an important fact to know is that while you own currency, it is not tangible. What you own is a key that you can transfer to another person, or sell from your exchange wallet, without the input of a third party.

How is cryptocurrency created?
Units of crypto are created through a process called ‘mining’, that uses

intensive computer power to solve complicated mathematical problems to generate coins. Many brokers exist to buy crypto from, such as Australian-owned exchanges Coinspot and Independent Reserve.

What are NFTs?
A non-fungible token, known as an NFT, is a form of digital artwork that is individualised. In short, 'non-fungible' means the artwork cannot be replicated. Think of it like trading cards, if you swap one trading card for another, you don't get the same card. But NFTs are not solely restricted to digital artwork. Developers are beginning to examine other uses for NFTs, such as contracts of sale for homes.

Wait, but can I just save an NFT file someone paid lots of money for?
Technically, you can simply right-click and save a JPEG file that may have sold for $10,000. But it still would not be yours. Ownership of the work, like physical artwork, has a raft of copyright protocols and reproduction rights. It is traded on the blockchain just as any other crypto is, with transaction history logged. For example, anyone can buy a Picasso print, but there is only one original.

How do I make money off NFTs?
The key factor in NFT ownership to understand is that consumer interest and hype drives the market. Similar to trading cards or art, rarity and the volume of interested buyers influences its worth. Researching into projects created by reputable people or companies through sites like Twitter and Reddit is the first step to understanding NFTs. Once you have an understanding, you can make a purchase, but you must know that at any moment, the price could skyrocket or plummet. Like any investment, never put in more than you are willing to lose.

What is the metaverse?
The 'metaverse' is an incredibly new concept. It is still in the early stages of development, but essentially it is an online 3D universe that combines different virtual spaces. It will, when it is further developed, allow users to work, play games, meet and socialise in an online space. Online video games currently provide the closest thing to a metaverse-like experience.

What does the expert say?
Co-founder of Crypto SA, Yawn Rong, an Adelaide-based business that assists crypto-based start-ups and facilitates major transactions of currencies, said NFTs can on one hand be used to exhibit social status, similar to buying a luxury car or watch, and on the other, used for profit. "It is like a lottery. You either make lots of money or can lose it all … that is

important," he said. He said collections that are limited, like Bored Apes Yacht Club that minted 3000 NFTs, allow purchasers to gain access to "the upper echelon" of exclusive social communities. "When you have that NFT, and you wear that NFT, say in your Twitter profile, you can then start to engage in conversations with other members of Bored Apes.

ATO Assistant Commissioner Tim Loh said consulting with a registered tax agent was the best way to ensure compliance.

"In most situations, crypto is subject to capital gains tax and not considered to be a personal use asset. Withdrawing or selling your crypto at a crypto ATM, doesn't necessarily qualify you to the 'personal use' asset exemption," he said.

"If you are trading or investing in crypto assets, you are required to report the gains or losses when you dispose of them in your tax return.

"Most taxpayers hold crypto assets as an investment and most activities involving crypto amount to a taxable transaction, which, for investors, usually gives rise to a capital gain or loss."

He said the best thing people can do was actively keep track of their crypto dealings.

"Records, records, records. We recommend setting up a recordkeeping system as a matter of priority, as we've found that the ease of transacting with crypto means that taxpayers often find it tricky to report correctly at tax time," he said.

Australians have been warned about the ATO's tax-time priorities this return season.

Elsewhere, the ATO will be cracking down on three other "priority" areas this tax time, where Mr Loh said the ATO had continued to see mistakes being made.

"Within these areas, we have identified common mistakes, and are particularly focused on addressing these and supporting taxpayers and registered tax agents to get their claims right this year," he said.

Changes to work-from-home deductions are now in effect, with Australians no longer able to claim the blanket 80-cents-per-hour rate of previous years.

Instead, taxpayers must now use the actual cost, or the revised fixed-rate method (up to 67 cents per hour) to claim work-from-home deductions,

There have also been changes to record-keeping requirements, and as of March 1 this year, Australians working from the confines of their home must keep a record for all hours worked for the entire financial year.

Changes to rental-property deductions are also under the microscope this year, after the ATO found up to 90 per cent of landlords were getting their return wrong.

The tax office has flagged it will be particularly focused on interest-expense claims.

Australians with side-hustles have also been warned to do the right thing when it comes to their tax returns, with the ATO set to make sure any income earned aside from their day job, including gig-economy work, is properly declared.