

Taxation and Legal Status of Virtual Currencies

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Introduction

- * Expansion of Virtual Currencies globally and in Pakistan.
- * The need of setting appropriate legal frameworks and defining Virtual Currencies.
- * Growing user base of Virtual Currencies in Pakistan.
- * Pakistan now stands at number 3 from the top 20 countries in terms of ordinary people's volume of transactions.

Outline

- * Defining Crypto Currencies and Block Chain Technology.
- * Characterization of Crypto Assets as per general accounting principles.
- * Legal status of Virtual Currencies around the globe and in Pakistan.
- * Taxation treatments adopted globally and in Pakistan.

What is Crypto Currency?

- * Digital and decentralized payment system.
- * No central authority involved.
- * Transactions recorded on public ledger using Block Chain Technology.
- * “Peer-to-Peer Electronic Cash System”.
- * Based on Cryptographic proof instead of trust.
- * Validation technique undertaken by miners.
- * Successful miner reward system.

Characterization of Crypto Assets

- * Characterized as ‘intangible assets’ in most countries.
- * No formal guidance available as of yet.
- * Accounting firms propose to classify virtual currencies as ‘intangible assets other than goodwill’.
- * IFRIC view virtual currencies under IFRS-IAS 38.
- * “An identifiable non-monetary asset without physical substance”.
- * Does not fall under the definition of cash or financial asset.

Legal Status of Virtual Currencies

- * G-20 countries consider virtual currencies to be 'legal'.
- * Other jurisdictions have imposed general bans.
- * Countries like India and Egypt are moving towards its acceptance.
- * However, not widely accepted as legal tender and Fiat Currency (Normal Currency).

Legal Status of Virtual Currencies in Pakistan

- * Circulars issued by State Bank of Pakistan to Exchange Companies and Banks.
- * No guidance or advise issued to the public at large.
- * Petition filed before Honorable High Court of Sindh.
- * Similar position emerged in India (Supreme Court Ruling).
- * Legal Maxim - Everything which is not forbidden is allowed.
- * Move towards digitization - SECP position paper & Raast payment system.

Taxation of Virtual Currencies

- * Taxation treatment correlates to definition of crypto currencies.
- * Most G-20 and OECD countries consider them to be a form of property and most often as intangible assets.
- * Two types of taxable events.
- * Taxation treatment in USA, Australia, United Kingdom, Canada and India.

Taxation of Virtual Currencies in Pakistan

- * Legal status and taxation treatment uncertain.
- * However, income which is tainted with illegality is immaterial for the purpose of taxation.
- * Any realized income or gain should be chargeable to Income tax.
- * Definition of capital asset defined under section 37(5) of the Income Tax Ordinance, 2001,
- * Income from Business under section 18.
- * Income from Other Sources under section 39.
- * Investments should be declared in Wealth Statement filed under section 116 and 116A if applicable.

THANK YOU