

# How do you pay tax on cryptocurrencies?



By [Graeme Palmer](#)

30 Oct 2017

Only the South African Reserve Bank can issue legal tender in the form of bank notes and coins. Cryptocurrencies are completely unregulated, and although not regarded as legal tender, there are no laws preventing them being used as payment. There are three ways of receiving cryptocurrencies - buying them on an exchange, receiving them as consideration for goods or services, and "mining".



[123rf.com](http://123rf.com)

There are many different cryptocurrencies, the best known being Bitcoin. Bitcoin is a convertible virtual currency, in other words, it has an equivalent value in real currency and can be exchanged back and forth for real currency. Cryptocurrencies are growing in popularity with a market capitalisation in excess of \$150bn.

Because there are no specific tax provisions that deal with cryptocurrencies, general tax principles will apply. In many respects, the taxation of cryptocurrencies is similar to that of Krugerrands, which are generally purchased with an expectation of an increase in the gold price. Cryptocurrencies can also be purchased for a long-term capital investment or as an asset to generate short-term profit. It is more likely that cryptocurrencies will be acquired for a short-term profit.

## Intention

The dominant intention or purpose of the taxpayer acquiring the cryptocurrency should be considered. The enquiry should therefore be whether the cryptocurrency was acquired as an investment of a capital nature or as an operation of business in carrying out a scheme for profit-making resulting in a profit of a revenue nature on realisation. If the cryptocurrency was acquired as a scheme of profit making the profits on disposal will be taxed as income.

If the cryptocurrency was acquired as a capital long-term investment, the disposal will be subject to capital gains tax. Factors such as, a lengthy holding period, no history of dealing in cryptocurrencies, and purchasing for capital preservation rather than speculation, would suggest that the resultant profit is capital in nature.

It is important that taxpayers acquiring cryptocurrencies keep a record of the value of the realised profits. The rand price of the cryptocurrency should be recorded at the time it is acquired. When the taxpayer either uses the cryptocurrency to purchase goods or sells it for rands, tax would be applied on the amount by which the disposal value exceeds the acquisition value. If the taxpayer is purchasing goods with the cryptocurrency, the disposal value would be the value of the goods purchased.

## ABOUT GRAEME PALMER

Graeme Palmer is a director in the commercial department of Garlick & Bousfield.

- Challenging Sars' decision to audit - 26 Oct 2020
- How do you pay tax on cryptocurrencies? - 30 Oct 2017
- U-turn on withholding tax on foreign service fees - 22 Aug 2016
- Tax benefits of public-private partnerships - 13 Mar 2015
- New withholding tax on interest soon into operation - 7 Nov 2014

[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>