Shan

Welcome to the Text Technology Podcast, where we explore the intersection of taxation and technology. I'm your host, Shan Sun. This podcast is powered by the Diploma in Text Technology from CIOT - The Chartered Institute of Taxation. In each episode of this season, we invite an expert guest and deep dive on a specific topic related to a technology that impacts our profession.

So sit back and enjoy the show.

Today's special guest is Antonio Lanotte. Antonio is a Chartered Tax Adviser and Senior Auditor. He serves as a committee member for the Tax Technology Committee at CCFE Brussels, and is a member of the Advisory Council for Blockchain for Europe. Antonio also contributes as part of the panel for experts for the EU Blockchain Observatory and Forum. Recently, he was nominated as ambassador for Italy by the Global Blockchain Business Council and is a member of the Scientific Committee at Italia Fintech. Welcome, Antonio.

Antonio

Hello Shan, thank you for having me and thank you for the kind introduction.

Shan

No problem. Let's go straight into it. I guess my first question is, what are some of the most common tax issues or pitfalls that individuals and businesses face when dealing with crypto-assets?

Antonio

Well, that's a fantastic question. Thank you.

Dealing with crypto-assets involves several tax challenges and pitfalls for both individuals and businesses. Many individuals mistakenly believe that crypto transactions are not taxable or not traceable, which leads, actually, to not reporting. This is absolutely a mistake. In fact, crypto transactions often involve numerous trades across multiple wallets and exchange, so in order to calculate the cost basis for each transaction can be very challenging.

In fact, there's a kind of confusion or misunderstanding around taxable events for crypto selling crypto for fiat currency, for example, or using crypto to buy goods and services, or trading one cryptocurrency for another. So, receiving crypto as an income or rewards.

So it’s important actually to say that, you know transfers between personal wallets are not taxable, but often are mistakenly reported. On the other hand, transactions on international exchange can actually complicate tax filings due to differing jurisdiction rules and potential double taxations. It's absolutely mandatory to not misclassify income from staking or mining, which are ordinary income, as capital gains can actually lead to inaccurate reporting and potential penalties.

It's absolutely also important not to incorrectly report long to shorter times gains or vice versa, in order to affect tax rates. Now, the reason why we’re saying that is because tax laws for cryptos, are often evolving a way that, you know, compliance due to lack of awareness can actually lead to penalties and fines. But on the other hand, over depending on automated tools can actually lead to inaccuracy if the software fails to account for specific tax rules or lacks integration with certain exchange. In my professional experience, I tend to detect the fact that many taxpayers ignore letters

from tax authorities, which is about an order to report crypto gains, and this has actually lead to or increase to penalties.

Now, all this kind of practice can actually lead to pitfalls, but in order to avoid pitfalls, it's important to maintain meticulous transaction reports, including: dates, amounts and fair market values. Employ tools like TaxBit, for example, in order to streamline tracking and reporting, and it's absolutely important to work with accountants or tax attorneys who are familiar with crypto regulations. In fact, regularly reviewed tax guidance and tax law changes might be very important in this kind of case in order to assure compliance.

Shan

Thank you. So you mentioned about tracking your, crypto transactions. So my question would be, how do tax authorities track and monitor crypto transactions, and what are the reporting requirements to the taxpayers?

Antonio

Well, tax authorities around the world can actually, you know, develop several mechanisms in order to track and monitor cryptocurrency transactions. In fact, most of cryptocurrency operate on public Blockchains that allows transactions to be traced and be analysed within actual wallet addresses, transaction histories and patents. Now, tax authorities often collaborate with specialised firms like Chainalysis, for example, in order to identify individuals or entities behind wallet addresses, many CEXs (Central Exchanges) are required to collect and report user data under anti-money laundering or Know Your Customer regulations. International cooperation is absolutely mandatory and is the key, namely, Common Reporting Standards – CRS - is a global standard for automatic exchange of financial account information, which includes crypto, between tax authorities participating countries. The OECD’s Crypto-Asset Reporting Framework, namely CARF, is a framework specifically designed to collect and exchange data on crypto-asset transactions.

And last but not least, the Financial Action Task Force Travel Rule, which requires exchange to share senders and receive information for transactions above a certain threshold.

Nowadays, actually, it's important to state the fact that, most tax authorities use advanced analytics and artificial intelligence tools in order to mine social media, forums, and online marketplaces in order to identify individuals involved in crypto trading or transactions. Tax authorities, on the other hand, may request bank records for fiat-crypto transactions in order to identify potential crypto purchases, withdrawals or payment linked to exchange.

Nowadays, global variations in reporting within European Union, for example: the proposed CARF, where crypto-assets services providers will actually be required to report user transactions to tax authorities starting from 2026.

Australia, for example, the Australian Tax Office monitors crypto transaction through exchange reporting and requires taxpayers to report gains on tax returns. Another example is Canada, where taxpayers must report crypto income and capital gains and exchanges are required to comply with reporting routes.
Now, penalties, of course, can actually, you know, lead to non-compliance, and those kind of penalties can be: failure to report, or non-reporting or under reporting, or actually, might lead to fraudulent activities or intentional tax evasions. So in order to be compliant is absolutely mandatory,

important, to maintain accurate records, track all transactions, including date, time, amount, cost basis and fair market value. Use crypto tax software, wherever this is the case; leverage tools like CoinTracker, Koinly or TaxBit; work with tax professionals - this is absolutely mandatory, consult accountants familiar with crypto taxation in order to navigate from within complex scenarios and regularly stay updated for changes in crypto tax laws and guidance from local tax authorities.

So, whenever you do this, you actually you're going to get compliant.

Shan

That sounds a lot of new rules related to crypto activities right now. So let's go back to the basics slightly: What are the tax implications of various crypto-related activities? You mentioned mining, I think, and I heard about staking hard forks or airdrops. Could you give us some high level introduction about those?

Antonio

For sure, I mean cryptocurrency related activities such as mining, staking or airdrops or hard forks can actually have distinct tax implications. Mining involves using computational power to validate Blockchain transactions and so create new coins. It's important to study the fine market value of crypto currency received as a mining reward is treated as an ordinary income at the time this coin is received.

On the other hand, when mined crypto is sold or exchanged, any appreciations in value since it was mined is subject to capital gain tax instead. It's important also to state the fact that miners can actually deduct expenses like electricity, hardware and internet costs, while hobby miners may not deduct those expenses, but must still actually report income.
Staking, on the other hand, involves locking up cryptocurrency in a network in order to earn rewards for securing the Blockchains. In this particular case, the fair market value of staking rewards is treated as an ordinary income at the time they are received.

Once staking rewards are sold, exchanged, or spent, instead any increase in value is actually taxed as a capital gain. Now, airdrops occur whenever cryptocurrencies are distributed to holders of a Blockchain network, often as a promotional strategy or reward. If tokens are sold later, any appreciation and value is therefore subject to capital gain tax.
And hard fork, last but not least, occurs when a Blockchain splits in two separate networks creating a new cryptocurrency. Now, it is important actually to say that if no coins are received, no tax implication may arise, and that any increase in value from the time we received to the time of sale is instead taxed as capital gain.

Now, most crypto-currency platforms tend to use crypto for lending or borrowing activities which can actually have different tax implications based on specific terms. Decentralised finance activities such as yield farming or liquidity provisions have complex tax implications. There might be some kind of token swaps, also. If tokens are exchanged or converted during DeFi activities, capital gains or losses might apply.

Or it's important, actually, to distinguish between short term and longer term gains which are taxed, which can actually be taxed on a different income rate.

Shan

You mentioned about DeFi which stands for Decentralised Finance, and I heard about Non-Fungible Tokens or NFTs. How do they complicate the tax reporting and then compliance further in this field?

Antonio

Well, decentralized finance and NFTs can actually introduce complexity to tax reporting and compliance due to the unique features, decentralised nature, and the variety of transactions they might involve. In fact, the DeFi platform facilitate diverse activities like staking, yield farming, lending, borrowing, and liquidity provisions: each potentially can actually trigger taxable events. In fact, determining, actually, the nature of this transaction can be ambiguous, in a way, without clear tax guidelines. Income generated through staking rewards or liquidity pools might not come with traditional documentation, which makes it harder to track and report accurately. In fact, DeFi platforms operate globally and potentially can actually trigger cross-border tax obligations. Users, therefore, might need to navigate the tax laws of multiple jurisdictions.

NFTs - Non-Fungible Token - are usually used in art, gaming, real estate and collectibles, and each of these transactions can actually have its own tax implications. Now for creators, NFT sales might be considered ordinary income, while for investors, buying and selling NFTs could trigger capital gains or losses.

It's important to state the fact that NFTs creators often receive royalties on secondary sales. Secondary buyers and sellers must also track their own gains or losses based on the NFT’s changing values. So, it is also important to state the tax authority’s role, which in many countries they have not issued comprehensive rules for DeFi or NFT transaction. This might actually leave taxpayers in a sort of grey area, so users often need to manually consolidate data multiple wallets, platforms, and Blockchains increasing the risk of errors or omissions.

So given the lack of clear reporting instructions, users might fail to comply, risking audits, penalties, and legal consequences. So it's absolutely important to use tools like CoinTracking, TokenTax, or actually TaxBit. It's also important regular export and save transaction history from wallet and DeFi platform. It's absolutely mandatory to seek professional advice who can help navigate you evolving regulations and ensure compliance. It's absolutely also important to monitor updates from tax authorities as well, as guidelines for DeFi and NFTs are likely to evolve. So if you proactively manage to, you know, tackle these kind of challenges, DeFi and NFT participants can actually better ensure tax compliance and reduce potential liabilities.

Shan

That just sounds very complicated and challenging to deal with. So are there any specific tax planning strategies that you think investors or business can employ to optimize their crypto related tax liabilities?

Antonio

Yes, there are several tax planning strategies that investors and businesses can actually use in order to optimise their crypto-related tax liabilities. Tax planning strategies for crypto-related activities in Europe depend on specific tax laws of each countries, that's normal, as tax treatment varies widely across the European Union and neighbouring countries. However, some general strategies can

actually help investors and businesses in order to optimise their tax liabilities while remaining compliant with the European tax regulations.

In fact, for example, in Germany, if you hold cryptocurrency for more than one year, capital gains may be tax-free.

In Switzerland, crypto gains for individuals are often tax free unless classified as professional trading income.

In countries like France and the Netherlands, you might be actually able to offset capital gains with losses incurred in the same year.

So, if you consider operating in countries like Estonia, Portugal or Malta, you might be considered the fact that in Estonia, crypto business can benefit from zero corporate tax rates on retained earnings until profits are distributed as dividends.

Portugal can offer a tax free environment for individual crypto gains, including trading and swapping between cryptocurrencies.

Malta has a specific tax rule for crypto where long term gains may be taxed at reduced rates depending on their classification, if they're capital or income.

It's important to actually to be aware of Double Taxation Avoidance Agreements. So if you earn income from a foreign crypto platform, you might be checked for tax treaties between countries in order to avoid to be taxed twice. For example, a German investor using a US-based DeFi platform, which can actually rely on Germany's tax treaty with the US, in order to claim foreign tax credits. It's also perhaps important to leverage on Stablecoins. Instead of converting crypto to fiat, you might be using Stablecoins to maintain liquidity and defer taxes in jurisdiction where such conversion aren't yet taxed.

Now, some countries, such as UK, for example, they use alternative assets like self-investment personal pensions in order to invest in cryptocurrency. Now, crypto tax laws are rapidly evolving. We already said that, across Europe, but actually worldwide. So it's important to stay informed about updates in your country or regions.
For example, the next European DAC8 directive, which is expected to be in 2026 will introduce stricter reporting requirements for crypto-assets across member states.

Now, finally, it's absolutely important, as I said, to use crypto tax software, perhaps like you know, TaxBit, for example, in order to aggregate transaction data from multiple exchange of wallets, calculate gains and losses, and generate country specific tax reports. It's also absolutely mandatory given the variation of tax law within Europe, to consult a tax professional familiar with crypto in your country: it's absolutely essential. The reason for that is because the consultant may actually tailor your strategies to local laws or help you classify income correctly, also ensure compliance with reporting requirements. So if you actually, you know, take all this kind of strategy and tailor with local, regulations, you know, European investors, but also, let's say global investment can actually better manage their crypto-related tax liabilities and be compliant.

Shan

You mentioned quite a lot about different rules in different countries, and also DTAs. So I wonder, how do international transactions and all of these cross border transfers of crypto-assets affect the tax obligations for taxpayers?

Antonio

Well, international transactions and cross border transfers of crypto-assets can actually affect tax obligations and often introduce complexity related to income recognition. For example, reporting requirements, and compliance with both domestic and foreign tax laws. In fact, most countries tend to tax residents on their worldwide income, including gains from cryptocurrency transaction, regardless of where the income is earned. Now, non-residents are typically taxed only on income sourced within that country. For example, if you are a tax resident of a high-tax country, but you earn crypto income in a low-tax jurisdiction, you might still owe taxes in your home country.

An example is a French resident earning crypto income from a Singapore based platform; the guy must report it as a part as a part of their global income under French tax law. Now there’s a risk, there's absolutely a risk you’ll be taxed twice, or even more than, actually twice, without proper tax planning. So the same crypto income, in fact, or gains may be taxed in multiple jurisdictions: at the source country, and in the resident countries. The solution is to leverage on double tax avoidance agreements in order to reduce or eliminate duplicate tax liabilities. So tax treaties might allow you to claim foreign tax credits for taxes paid abroad.

Some countries, for example, might impose withholding taxes. For example, if you sell NFTs on a platform based in your country, with withholding taxes law, a percentage of your sale might be withheld and remitted to your country’s tax authorities.

In fact, cross border transactions might involve goods or services paid with cryptocurrency might trigger VAT - Value Added Taxes - or Goods and Services Taxes, namely, GST. So it's important to state the fact that NFTs often fall under digital goods or services, making them subject to VAT in the buyer’s countries. Now, moving to a crypto friendly country can actually reduce tax liabilities for cross-border crypto earners. Best practice in order to manage cross-border crypto tax obligations might be: track all your transactions, including wallet transfer exchange activities and foreign earnings, with timestamps and fair market value; Use tools such as Koinly/ TaxBit in order to consolidate transactions across jurisdictions and provide reports aligned with global tax laws; and mandatory, absolutely, I kept repeating, is to consult experts familiar with international crypto tax laws and treaties in order to optimise compliance and avoid penalties.

If you understand all these kind of tax obligation, cross border crypto transaction, and employ strategic plannings, individuals and businesses can actually reduce the risk of double taxation and ensure compliance with international tax laws.

Shan

I think for the audience who actually hold crypto-assets, they would be really interested to know a little bit more on the best practices, as you mentioned, for record keeping and documentation when it comes to crypto transactions and tax reporting. Can you elaborate around this a bit further?

Antonio

Sure: proper record keeping and documentation for cryptocurrency transaction is absolutely essential for accurate tax reporting and ensuring compliance with tax regulation. In fact, is absolutely mandatory to record the date, time, amount and value for every crypto transaction. This includes purchases, sales, trades, gifts and staking rewards. It's also important to save records from all exchanges including trade history, deposit and withdrawal records and account statements.

In case of self-custodian wallets, it's absolutely important you keep transactions IDs, TXIDs, and you need also to document all the crypto related income such as mining rewards, staking, airdrops and salary payment in crypto. So you might be using, perhaps apps like CoinMarketCap or Blockfolio in order to identify trades and sales subject to capital gains tax. You need to categorize income-generating activities. You also need to document wallet-to-wallet transfer to avoid them being misclassified as taxable events.

So it's absolutely, and this is an important recommendation I have for you, for the audience, is to save receipts for crypto purchases and payments. Retain records of fiat currency deposit and withdrawals associated with crypto activities. If you're using crypto for business, you might want to separate those transactions from personal ones and maintain clear record for business expenses and income. You might want, perhaps, to track purchases, sales, and trades for professional investments purposes distinctly, and you need also to stay updated on tax regulations specific to your jurisdictions, such as taxable thresholds, reporting formats or obligation for crypto held abroad. And, last but not least, you need to regularly check for updates to tax law affecting cryptocurrency.

Now again, you need to work with a tax professional familiar with cryptocurrency in order to ensure your records meet Reporting Standard. By following this practice, you minimize the risk of errors in your tax reporting and be better equipped for any audits or queries from tax authorities.

Shan

Thank you very much. That's a very comprehensive list of advice there. So as crypto-assets become more popular, how do you see the tax regulations and enforcement evolve in this area?

Antonio

As cryptocurrency adoption grows and becomes mainstream - and we hope actually it's going to become mainstream - part of the global tax regulations are likely to evolve enormously. Now, tax authorities are likely to collaborate and create a kind of standardized reporting requirements, especially through an organization like the OECD. Namely, the OECD Crypto-asset Reporting framework (CARF), aims to provide a global standard for reporting crypto transactions, similar to the Common Reporting Standard for financial accounts.

Now, with regulatory certainty, the National Security Benefits of crypto-assets and Blockchain technology will actually grow exponentially. Now, some of the benefits might include: effective monitoring of international trade requirements, and enforcement of sanctions. In particular, the use of Blockchain and tokenization processes can actually greatly improve the traceability of supply chains. Now, as I mentioned, the crypto-asset reporting framework was actually published by the OECD October, 2022 and the main objective of this framework is to establish a uniform rules for reporting and sharing information on crypto-assets between tax authorities of different countries, in order to facilitate the collection of data on transaction and income generated by these activities.

Now the Common Reporting Standard, the CRS, requires financial institutions to report information on financial accounts held by non-resident taxpayers to tax authorities of the account holder's country of residence. The CARF includes… expands, actually this concept in order to include crypto-asset service providers to report information on transactions and assets held by users.

Now, the Financial Action Task Force is absolutely important, and this leads to anti money laundering regulations. In fact, the FATF established global guidelines in order to combat money laundering and terrorist financing. Now the FATF recommendation include Know-Your-Customers and anti-money laundering requirements for financial intermediaries. The CARF might also include Know-Your-Customer Rules, so requires crypto-asset service providers to collect detailed information on users, namely: name, address, tax residence, and verify the identity of customers according to KYC standards, thus making the crypto-asset industry more trustworthy and controllable. So the CARF introduced a common framework for the taxation of crypto-assets, which aims to close the current tax holes caused by the lack of uniform regulations. In particular, it aims to counter tax evasion, prevent individuals and companies from using crypto-assets to hide income or capital by creating an international surveillance network based on cooperation between countries. So this could lead to increased tax revenues and improve tax compliance in implementing CARF, which will require significant adjustments of data collection systems of crypto-asset providers and tax authorities.

If widely adopted, the CARF could actually contribute to strengthening the confidence of governments and taxpayers in crypto-asset markets in order to create greater stability and regulation of the sector. The CARF is therefore an important step towards the creation of an international taxation system for crypto-assets, which could evolve further with adoption of complementary and country-specific regulations.

Now it's important for tax authorities to rely heavily on Blockchain analytics tools like Chainalysis, for example, in order to monitor transactions on public Blockchain, such as: using tax software, which will increasingly integrate directly with wallets and exchange; a real time tax calculation. As crypto becomes mainstream, tax policies might balance fairness and innovation in order to prevent over regulation from growth. Now, governments might perhaps invest in educating taxpayers about crypto tax obligation in order to, y'know, improve voluntary compliance. Individuals and business will actually need to stay informed and adapt to those changes in order to remain compliant while benefit from opportunities in this kind of evolving regulatory landscape.

Shan

That's a lot to take in today. Thank you, Antonio. I couldn't conclude my episode today without asking you some advice to tax professionals who are new to the world of crypto-assets and maybe looking to expand their knowledge and expertise in this area. Could you say something around that?

Antonio

Yeah. For sure.

Let's say that for tax professional new to cryptocurrency and diving in this kind of complex and rapidly evolving field, it's absolutely mandatory-important to learn how Blockchain technology works. So focusing on key concepts like wallets, public and private keys and transaction mechanisms. It's important to know how different cryptocurrency operate, and familiarise yourself with

exchanges like DeFi, of course 'Decentralized Finance', and other crypto ecosystems like staking, NFTs and Tokenomics.

It's absolutely important to understand international approaches, especially if you deal with clients with cross border transactions.

And you also need to be, familiar with the OECD crypto-asset reporting framework, namely, CARF for global standards.

You need to review government publications on crypto taxation. Follow regulatory updates through official website. You might be using, of course, crypto wallets and conduct perhaps small transactions to understand how trades, transfers and staking work. Simulate calculations for common crypto tax events like buying, selling, trading, staking and receiving rewards.

You want to perhaps open an account with a Crypto Exchange and learn how to generate tax reports.

It's absolutely mandatory that you stay up to date you know, with reputable crypto and Blockchain outlets like CoinDesk, The Block or other actually news perhaps for updates on regulation and market trends.
You need to engage with Blockchain crypto communities, both online and offline, through conferences and meetups. So you need, perhaps, to offer workshop or publish content in order to offer your clients about, you know, crypto tax obligation, which might be helping... help establish credibility.
You need to partner with crypto-focused financial advisors, exchange and Blockchain startups in order to gain referrals.
So if you want to expand in this world of crypto taxation, you might be actually offering significant opportunities for tax professionals to position themselves by, you know, learning, gaining practical experience and leveraging advanced tools and building a professional network. In this particular specific case, you might be positioning yourself as a trusted advisor in this kind of emerging field.

Shan

On that note, just. Thank you so much, Antonio, for your time today.

Antonio

Thank you.

Shan

Thank you for tuning in to today's discussion on text technology. A special thanks to the studio and CIOT for making this episode possible. The Tax Technology podcast is available on Spotify, Apple Podcast, and the CIOT website. Please like and subscribe for more insights, and we look forward to your feedback and future topics you may be interested in. Until next time, stay informed and get ahead.