

Singapore income tax treatment of digital tokens

22 May 2020

In brief

On 17 April 2020, the Inland Revenue Authority of Singapore (IRAS) published the e-Tax Guide “Income Tax Treatment of Digital Tokens” which provides guidance on the income tax treatment of transactions involving digital tokens.

In particular, the e-Tax Guide discusses the tax treatment for digital tokens as well as the tax treatment for initial coin offerings (ICOs). The tax treatment for digital tokens is largely aligned with the application of existing income tax provisions. The salient points are summarised below.

The release of the e-Tax Guide is timely, just a few months after the Monetary Authority of Singapore introduced new payments legislation and also sought consultation on the proposed regulatory approach under the Securities and Futures Act for derivatives contracts that reference payment tokens (e.g. Bitcoin) as underlying assets. We welcome the recent publication by the IRAS as it reflects the government’s continued efforts to boost Singapore’s position as a dynamic international financial hub and a centre for digital innovation.

In detail

Tax treatment of digital tokens for Singapore tax purposes

Type of token	Payment tokens	Utility tokens	Security tokens
Characterisation of the token for Singapore tax purposes	A payment token has no further function apart from being used as a mode of payment. As such tokens are not legal tender, they are viewed as intangible property for tax purposes.	A utility token gives the owner a specified or implied right to use or benefit from goods or services in exchange for that token.	This has been defined as a digital token that provides security (e.g. equity or bond) investment in an entity, giving the token owner an interest akin to a specified or implied degree of control or economic entitlement.
Highlights of the clarification on tax treatment for the holder of the token	<p>The transaction involving the use of payment tokens as payment is viewed as barter trade and the recipient of the tokens would be taxed on the value of the underlying goods provided or services performed. Likewise, the value of the deduction will be based on the value of the underlying goods purchased or services received.</p> <p>Change in fair value from appreciation/depreciation in value will not be taxable/deductible as the gain/loss is not realised. The specific tax treatment of the actual gain or loss on disposal will depend on whether the token is considered a capital or revenue asset to the holder.</p>	<p>Where a person acquires a utility token to exchange for goods or services to be provided in the future, the amount incurred to purchase the token will be treated as a prepayment.</p> <p>Subject to tax deduction rules, a deduction will be allowed on the amount incurred at the point the token is used to exchange for the goods or services.</p>	<p>Generally, security tokens are accounted for as a form of debt or equity, depending on the rights and obligations created by the token.</p> <p>Interest or dividend derived by the holder (depending on whether the token is characterised as debt or equity) will be treated according to normal tax rules.</p> <p>Tax treatment of the gain/loss on disposal will depend on whether the token is considered a capital or revenue asset to the holder.</p>

Initial coin offerings (ICOs)

From the perspective of the issuer, the tax treatment of the proceeds from an ICO depends on the rights and functions of the tokens issued to the investors.

Proceeds from the issuance of security tokens is akin to proceeds from the issuance of a debt or equity and is thus capital in nature and not taxable.

As the proceeds from the issuance of utility tokens will generally be regarded as deferred revenue, the timing of taxation is when the performance obligation is fulfilled (i.e. when the services are performed / goods are delivered).

Proceeds from the issuance of payment tokens may be taxable depending on its specific facts and circumstances (though acknowledged to be uncommon). An example provided in the e-Tax Guide is where the ICO company is carrying on a trade of trading in payment tokens and the tokens are treated as its trading stock, the proceeds from the issuance of payment tokens will be taxable at the point of issuance.

In the case of a failed ICO, the tax implications will take into account the specific facts and circumstances such as the ICO company's principal business activities, reasons for undertaking the ICO and the contractual obligations arising from the issuance of the tokens.

Trading in digital tokens versus tokens held for investment

In line with general tax principles, the tax treatment of the gain/loss on disposal will depend on whether the digital token is considered a capital or revenue asset to the owner. In determining whether the digital tokens are capital assets or trading stock, the usual approach would be adopted – i.e. regard would be had to the facts and circumstances, applying well-established tax principles like the “badges of trade”. The timing of taxation is when the income is realised and has accrued to the person disposing the tokens.

Digital tokens received as employment income

Where the token is used to remunerate a founder for the services he has rendered, it is regarded as revenue in nature and hence, taxable. Likewise, the same tax treatment would apply to remuneration received by employees, and the amount to be reported should be based on the value of the employment services performed by the employee. An examination of the employment contract may be required to determine the taxable amount.

The timing of taxation is when the income accrues to the employee. Where payment tokens given to employees include a moratorium, the payments will be taxable when the moratorium is lifted.

Valuation of payment tokens

Currently, the IRAS does not prescribe any methodology to value payment tokens. Taxpayers can use an exchange rate that best reflects the value of the tokens received, provided that:

- (i) The exchange rate must be reasonable and verifiable, e.g. it is determined using an average of exchange rates available on payment token exchanges, such as Coinbase and Binance. Where the exchange rate is not available on exchanges, taxpayers can use other means to support their claim that the basis of the exchange rate used is reasonable; and
- (ii) The methodology used to determine the exchange rate should be consistently applied year on year.

For the purposes of computing the gain/loss on disposal of payment tokens which are acquired over a period at different values/prices, the IRAS will accept the first-in-first-out (FIFO) or weighted average cost methods of valuation. The last-in-first-out (LIFO) method will not be acceptable.

Areas requiring further consideration

To ensure that the tax treatment for digital tokens is consistent with current established practice relating to the trading of more traditional financial assets, the authorities may wish to consider refining tax incentives given to funds and financial institutions.

Availability of tax exemption for qualifying investment funds

The fund tax exemption schemes under sections 13CA, 13R, and 13X of the Income Tax Act provide tax exemption for “specified income” from “designated investments” derived by qualifying funds. Given the growing acceptance of alternative assets in today's digital age, fund portfolios may also include digital tokens. In line with Singapore's position as the asset management hub in Asia, the authorities may wish to consider expanding the current whitelist of designated investments to include digital assets, to attract funds with different strategies to be based in Singapore.

Broadening the financial sector incentive scheme for banks and financial institutions

The financial sector incentive (FSI) schemes have been streamlined to remove currency, residency of counterparty and investment instrument restrictions in 2017. Transactions involving digital assets are currently not included as an FSI qualifying activity. As alternative assets become popular investments among financial institutions, an expanded scope to include such digital assets will ensure the relevance and sustainability of the FSI schemes.

Let's talk for deeper discussion of how this updated tax treatment might affect your business, please contact:

Corporate Tax



Chris Woo
Tax Leader
chris.woo@pwc.com
+65 9118 0811



Paul Lau
Tax Partner
paul.st.lau@pwc.com
+65 8869 8718



Abhijit Ghosh
Tax Markets Leader
abhijit.ghosh@pwc.com
+65 8223 0698



Rose Sim
Tax Partner
rose.sim@pwc.com
+65 9623 9817



Stella Seow
Tax Manager
stella.sy.seow@pwc.com
+65 9679 8460

Global Mobility Services



Sakaya Johns Rani
Global Mobility Services
Partner
sakaya.johns.rani@pwc.com
+65 9088 8346



Mark Amatya
Global Mobility Services
Director
mark.amatya@pwc.com
+65 9628 3146



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers Singapore Pte. Ltd., its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2020 PricewaterhouseCoopers Singapore Pte. Ltd.. All rights reserved. "PricewaterhouseCoopers" and "PwC" refer to PricewaterhouseCoopers Singapore Pte. Ltd., or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.