



6 June 2016

Division Head
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

via email: digitalcurrency@treasury.gov.au

Dear Sir/Madam

The Australian Digital Currency and Commerce Association (**ADCCA**) appreciates the opportunity to provide a submission to the Treasury in relation to the proposed application of GST to digital currencies.

ADCCA

The ADCCA is Australia's peak body for representing participants in the digital currency industry and other interested parties. Members of ADCCA include major Bitcoin and digital currency businesses, legal and accounting firms and other financial sector participants. The ADCCA has close links with other industry bodies around the world, including the United Kingdom Digital Currency Association, the Global Digital Currency Council and the Chamber of Digital Commerce.

Response to consultation document

It is the view of the ADCCA that the adoption of new technologies in the financial services sector, and particularly digital currency and blockchain technologies, needs to be fostered by the Australian Government. In order to achieve this, we submit that barriers to entry that result from an inequitable treatment of new technologies should be removed.

The current treatment of digital currency by the Australian Taxation Office, as outlined in Goods and Services Tax Ruling, GSTR 2014/3, represents a clear inequity between digital currency (in that particular case, Bitcoin) and the existing technology which the new technology seeks to augment, fiat currency.

As such, the ADCCA strongly supports the recommendations in the report of the Senate Economics References Committee in its report of 4 August 2015 entitled "Digital currency – game changer or bit player" that the Australian taxation laws should apply to digital currency in the same way in which those laws currently apply to fiat currency or "money".



If this treatment is not available on the basis of Australia's taxation laws as they presently stand, then the ADCCA urges the Australian Government to quickly move to make the amendments necessary to ensure this parity of treatment.

Specific responses

Input taxed treatment is not the answer

The ADCCA is of the view that input taxed treatment of digital currency would result in distortions and unintended outcomes. This proposal does not achieve the fundamental principle of parity of treatment that was recommended by the Senate Economics References Committee.

Rather, it produces a new class of treatment. Whilst in some cases, input taxed treatment may provide similar outcomes to those that would result from defining digital currency to be money, those outcomes are:

- not the same in all circumstances; and
- provide the possibility for further divergence in treatment over time.

It appears that the only argument for preferring the proposal to input tax digital currencies is a view that the amendments to do so may be able to be made more speedily than those necessary to expand the concept of money.

The ADCCA rejects this assertion. The input taxation of digital currency would require the same agreement of the States and Territories and although such a change may be able to be implemented through an amendment to the *A New Tax System (Goods and Services Tax) Regulations 1999 (GST Regulations)* rather than an amendment to the *A New Tax System (Goods and Services Tax) Act 1999 (GST Act)*, in either case:

- there would need to be an allocation of resources for drafting the amendment;
- consultation; and
- provision of explanatory material.

Further, given the findings of the Senate Economics References Committee, the ADCCA believes that there are strong prospects for bi-partisan support for any legislative amendments.

Even if it were the case that it would be simpler and speedier for the adoption of input taxed treatment of digital currency rather than treatment as money, it is the view of the ADCCA that this factor should not encourage the adoption of a less than ideal proposal.



As this point in time, Australia has an opportunity to be part of the vanguard of the adoption of digital currency and blockchain technology. Now is the time for the Australian Government to support the adoption of these technologies. The creation of the correct taxation environment is critical to the Australian economy achieving all the benefits of growth that can be derived from these innovative technologies. As such, now is the time to get the treatment right.

GST-free treatment is not appropriate

The ADCCA is not seeking a taxation treatment for digital currency that would place digital currencies at a competitive advantage to fiat currency. The ADCCA believes that parity of treatment is appropriate.

For this reason, the ADCCA does not consider that GST-free treatment of digital currency is the correct approach to be adopted.

Treatment as money is the correct way forward

Whilst the ADCCA appreciates the opportunity to canvass other alternative treatments, the ADCCA remains of the view that the tax laws, including GST, should apply to digital currencies in accordance with the fundamental characteristics of digital currencies, that is as money. We submit that such treatment:

- ensures that the tax system does not create a distortion between 2 different technologies seeking to play similar economic roles;
- ensures that the new technology is not subject to an artificial barrier to entry as a result of the operation of the tax system; and
- is achievable through minimal amendments to the GST law.

The ADCCA submits that the correct way forward is to:

- Include "digital currency" within the definition of money in the GST Act;
- Provide a flexible definition of "digital currency" in the GST Act; and
- Amend the GST Regulations to ensure that the financial supply provisions in regulation 40-5.09(3) Item 9 refer to "digital currency" along with Australian currency and currencies of another country.

As noted in the Discussion Paper, there are different approaches that can be taken to the drafting of a definition of "digital currency":

- an attempted "all encompassing" definition;



- the use of statutory instruments/regulations to include or exclude particular technologies from the definition; or
- a combination of both.

The ADCCA considers that whatever approach is adopted, it should be clear, predictable and not provide an artificial barrier to the entry of new technologies. As such, it is submitted that a combination approach may provide the best mix of certainty and flexibility.

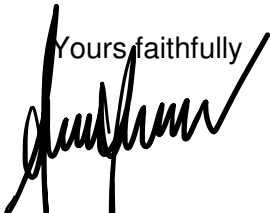
The precise definition that is adopted should ensure that in order to be treated as money, a digital currency technology must be:

- an open system -that is, one that can be used not only to acquire goods and services but is convertible into fiat currency and which is able to be purchased with fiat currency;
- a store of value; and
- capable of wide spread adoption.

Summary

We thank the Treasury for the opportunity to be part of this conversation and look forward to continued dialogue with Treasury as the ADCCA seeks to further the interest of both the Australian digital currency industry and the Australian economy as a whole.

Yours faithfully

for 
Ronald M. Tucker
Chairman
ADCCA