

**1. Should digital currencies be identified for GST purposes by defining them or listing them? If a combination or alternate approach should be used, please describe how it would work.**

Referring to the potential definition requirements in item 33 of the discussion paper: A flexible definition including definitions (a), (b), (e), & (f) would be the most advantageous. However, (c) and (d) relate to the popularity of a digital currency which may stifle innovation and prevent adoption of novel and proof of concept stage digital currencies.

Regarding (f) and hybrid de/centralised digital currencies, there should be some flexibility in this definition as it is practically impossible to have a purely decentralised digital currency. For example, even Bitcoin has centralised components (trusted nodes maintained by core developers).

A listing approach would be limiting because it creates a barrier to entry and burdens the government to maintain the registrar.

A sensible approach would be to create an Act that gives a definition for digital currency which focuses on permissioned ledgers, a definition for crypto-currency which focuses on permissionless ledgers. Blockchain should also be defined.

Digital currency:

A digital ledger that is created, controlled or maintained by a legal registered entity (company).

Crypto-currency:

A digital ledger that is created, controlled or maintained by a network of computers by means of a blockchain.

Blockchain:

A digital ledger that utilises proof-of-work or proof-of-stake cryptography (ie. hash, nonce, digital signature, public/private keys, entropy) to secure transaction records from alteration.

**2. Assuming digital currencies are to be defined for GST purposes, what criteria should be included? Should specific types of other currencies be explicitly excluded in the definition? Would all criteria be given equal weight?**

The most important criteria in a definition is to be fully open source.

Where a digital/crypto-currency is not fully open source, it is not verifiably trustworthy nor predictable as a form of money.

**3. Regardless of how digital currencies are identified for GST purposes, should a decision maker have the capacity to exclude one or more of them under certain circumstances, such as if a currency was being used predominantly for illegal purposes?**

No. While taxing digital currencies predominantly used for illegal activities may help to reduce their market value in Australia, it will not help authorities to help international efforts to prosecute crime.

The Treasury should consider the two mutually non-exclusive objectives:

- Reducing legitimate cash flow channels, or

- Increase the crossover between legitimate trade channels and illicit trade channels to stop crime

The first objective has so far been chosen by taxing domestic Bitcoin sales. This has resulted in increased demand for unregulated traders who may also be less inclined to pay due taxes.

If the second objective is chosen:

- A) Our tax base grows from freer movement of capital,
- B) The tax office will have more blockchain information available to aid in tax evasion investigations, and
- C) Authorities will have more information at their disposal to unmask criminals.

**4. Regardless of how digital currencies are identified for GST purposes, what can be done to ensure the provisions remain relevant as technology advances?**

Keep the provisions simple and to the point. Consult with members from the leading digital currency education and advocacy association, Bitcoin Association Australia.

**5. Should digital currencies be given input-taxed treatment or be treated equivalently to 'money' for GST purposes, noting the limited differences in outcome and the likely compliance burdens and timeframes for implementation?**

The Bitcoin taxation situation in Australia needs to be reformed as soon as possible and with limited compliance burdens. Digital currencies should be given input-taxed treatment as soon as practically possible.

**6. Are there specific examples of different outcomes between the options that would result in one option being favoured? How frequently would these circumstances arise for relevant businesses?**

*Input-tax treatment* is the quickest option to easily remove the 'double taxation' issue and should be made an immediate priority.

*Treatment as money* requires additional work to quarantine the definition of money and financial supplies in a rapidly evolving Internet money era, and also adds a compliance burden in categorising payments as supplies of goods, services or other money.

*GST-free treatment* might deliver an attractive taxation treatment to Bitcoin, reducing associated GST compliance costs and input-tax accounting burdens. However, the categorisation and treatment as a non-monetary instrument may make financial integration of Bitcoin more difficult.

**7. What effect does each of the options have on the regulatory burdens and compliance costs of different market participants (for example, consumers, merchants and digital currency traders/intermediaries)?**

Regulatory burdens and compliance costs associated with treating Bitcoin as money would affect consumers, merchants and digital currency traders alike.

**8. Are additional reduced credit acquisitions required to be specified in the GST Regulations to allow access to RITCs for the digital currency industry? If so, what types of acquisitions would they include?**

Regulation 70.5.02B of A NEW TAX SYSTEM (GOODS AND SERVICES TAX) REGULATIONS 1999 is quite extensive already.

Item 14 covers the provision of systems development and computer programming services which should cover GST expenses related to digital currency software development.

Item 15 covers the maintenance and operation of transaction processing systems (including communications and applications systems) which should cover GST expenses related to digital currency ATM and exchange businesses.

**9. Under input taxed treatment or treatment as 'money' for digital currencies, would Australia regain sufficient international competitiveness, compared to other jurisdictions?**

While input taxed treatment or treatment as 'money' may be sufficient to regain international competitiveness, the burden of working out input tax credits is not an attractive treatment compared with a competing jurisdiction that does not have this requirement.

**10. Does GST-free treatment have any significant advantages that haven't been considered?**

With GST-free treatment, financial institutions would have an economic incentive to compete with Bitcoin exchanges in supplying digital currencies to the Australian public.

It may catalyse adoption of digital currencies by the banking sector which would enable banks to settle payments faster, cheaper and with transparency.

The Australian public may be more inclined to transact in digital currencies when offered by their bank.

Providing Australians with incentives to transact in a transparent and real time currency will result in higher accountability for people using Bitcoin, more satisfaction with faster processing times and will raise the bar for the banking industry to provide more services for Australians.

**11. Are there other options to address the current GST treatment of digital currencies that have not been considered and which would provide significant advantages?**

The Treasury could adopt Bitcoin as a second Australian currency and remove the GST system completely. Removing the GST system would reduce payment friction, alleviate poverty, boost the economy and ultimately increase tax revenue as the government could accept bitcoins for taxes. It would also significantly offer full transparency of tax payments and public accountability of government spending.