

Summary of Responses – Public Consultation on the Draft e-Tax Guide on Digital Payment Tokens (“DPT”)

IRAS conducted a public consultation exercise between 5 Jul to 26 Jul 2019 to seek feedback on the draft e-Tax Guide “GST: Digital Payment Tokens”.

IRAS received comments from 19 respondents on the draft e-Tax Guide during the consultation period. IRAS wishes to thank all respondents for their comments.

Comments received include:

- Suggestions and clarifications on the definition of DPT;
- Requests to treat the first issuance of DPT as a regulation 33 exempt supply;
- Requests for GST remission for supplies of DPT made before 1 Jan 2020; and
- Clarifications on GST reporting requirements.

IRAS has considered carefully all the comments received. IRAS will fine-tune the e-Tax Guide, taking into account the comments where possible, and publish the Guide on 19 Nov 2019.

A summary of the key suggestions received and our responses are as follows:

A. Definition of Digital Payment Tokens

- (i) *Comment:* To include stablecoins (i.e. tokens that are pegged to the value of other currencies), or tokens that are backed by underlying assets or a reserve of assets in the definition of digital payment tokens for GST exemption.

IRAS’ response: There is no need to include these tokens in the definition of digital payment tokens. Tokens that are pegged to or backed by other currencies or assets already qualify for GST exemption as derivatives under paragraph 1(j) of Part I of the Fourth Schedule to the GST Act.

- (ii) *Comment:* To clarify the GST treatment for security tokens and utility tokens.

IRAS’ response: A security token is a token that provides security (e.g. equity or debt) investment in an entity. Such tokens currently qualify for GST exemption as a debt security under paragraph 1(e) or equity security under paragraph 1(f) of Part I of the Fourth Schedule to the GST Act.

A utility token is a token that represents a right to a good or service. A utility token may qualify as DPT if it meets all the characteristics of a DPT and it can still be used as a medium of exchange after the right or entitlement to the good or service has been used.

- (iii) *Comment:* To clarify and provide more examples of a token which does not qualify as DPT as it “gives an entitlement to receive or to direct the supply of goods or

services from a specific person or persons and ceases to function as a medium of exchange after the entitlement has been used.”

IRAS’ response: Tokens with such entitlement are akin to traditional vouchers which carry a promise that the vouchers can be exchanged for goods or services from a specific person or persons. Once redeemed, the voucher is no longer usable as a medium of exchange. The GST treatment for such tokens will follow the GST treatment for vouchers. Please refer to IRAS e-Tax Guide “GST Treatment of Vouchers”.

For example, Bitcoin or Ether will not fall within this definition as they can be exchanged for goods/services from whoever accepts such tokens, not specific person(s). In comparison, a token designed such that it can only be redeemed for the issuer’s products/services on its ecosystem and is automatically cancelled/burnt by the blockchain protocol once redeemed will not qualify as a DPT.

- (iv) *Comment:* To clarify whether tokens with unique serial numbers are “fungible”.

IRAS’ response: Tokens with unique serial numbers are fungible as long as they are designed to be used interchangeably as consideration. For example, fiat currency notes have unique serial numbers, but this does not stop them from being used interchangeably as consideration. On the other hand, virtual collectibles such as CryptoKitties are not fungible as each CryptoKitty has unique characteristics which are not fully interchangeable with other CryptoKitties for the purposes of their use as consideration.

B. Issuance of cryptocurrencies as regulation 33 exempt supplies

- (i) *Comment:* To treat the issuance of DPT via an Initial Coin Offering (“ICO”) as a regulation 33 exempt supply.

IRAS’ response: Exempt supplies in regulation 33 are those commonly made by businesses that are making predominantly taxable supplies. Such supplies are necessary and integral to the making of taxable supplies and therefore, input tax incurred in the making of such supplies should be allowed. ICOs, unlike the issuance of shares or bonds, are currently not commonly used by businesses primarily concerned with the making of taxable supplies to raise funds. Therefore, we are unable to treat DPT issued via ICO as a regulation 33 exempt supply.

C. Remission of tax for DPT supplied before 1 Jan 2020

- (i) *Comment:* To extend the revised GST treatment to DPT supplied before 1 Jan 2020 via remission; this will level the playing field for the early movers.

IRAS’ response: We are unable to grant a blanket remission as the change in the GST treatment of DPT is keep up-to-date with the global development and growth in the use of DPTs. The change is not to incentivise the cryptocurrency sector.

D. GST reporting requirements

- (i) *Comment:* To clarify if the gains or losses recorded for accounting purposes, including unrealised gains or losses, can be used for GST reporting.

IRAS' response: As an administrative concession, businesses that do not track which gains or losses arising from the exchange of digital payment tokens are realised or unrealised are allowed to report the total gains or losses (whether realised or unrealised) as the value of exempt supplies.

- (ii) *Comment:* To clarify whether gains or losses arising from different DPT trades can be offset against each other for GST reporting purposes. For example, can business net off the loss from the exchange of Ether for Bitcoin against the gain from the exchange of Bitcoin for fiat currency.

IRAS' response: Businesses should net the gains or losses for all DPT trades for each accounting period and report the absolute amount in the GST return.

- (iii) *Comment:* To clarify whether one needs to seek the Comptroller's prior approval before choosing to report the value of DPT supply based on the proceeds received or exchange gains/losses.

IRAS' response: Businesses need not seek Comptroller's approval before using either method but whichever method chosen must be applied consistently.

- (iv) *Comment:* To clarify why a miner's validation is treated as the trigger point for time of supply, instead of the earlier of date of invoice or date of receipt of consideration as per the general time of supply rule.

IRAS' response: The general time of supply rule still holds. According to industry feedback, the date of validation by miners reflects the date of receipt of the consideration for a DPT transaction. If an invoice is issued before the consideration is received, that invoice will trigger the time of supply.