

## Confusion prevails over method to tax cryptocurrency gains

### Synopsis

The big question that's bothering everyone is how are the gains from crypto assets to be calculated?



Tax is always levied on gains. That is, sale price minus cost — but due to the nature of cryptocurrencies, ascertaining the cost and the gains have become tricky, tax experts said.

The tax department as well as investors are in a quandary over how to calculate gains on **cryptocurrency** for taxation purposes, especially since tax laws flounder and conflict against certain regulations and tax is calculated on the value declared by the assessee.

The big question that's bothering everyone is how are the gains from crypto assets to be calculated? By assuming that cryptocurrencies bought first will be sold first (first in first out/FIFO) or by assuming that the ones bought last were sold first (last in first out/LIFO)?

Take a hypothetical example, if an investor bought one **bitcoin** in 2017 for \$1,000, another in 2018 for \$ 13,000. In 2020, of his two bitcoins, he sold one for \$7,000.

For taxation purposes, the question is to know which cryptocurrency did he sell — the one purchased in 2017 or the one purchased in 2018.

The difference is that if the "FIFO" method is applied, then the tax will be on the gains of \$6,000. And there will be no taxes if **LIFO** is applied, tax experts said.

"For the purpose of taxation, the FIFO method should be used to account for taxation. But as of today, there is no clarity around this mainly because even the asset class is not defined," said Amit Maheshwari, tax partner at tax consulting firm AKM Global.

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The main problem for taxation is that there is no clarity on what cryptocurrencies are. That is, whether they are currency, asset, commodity or something else. Till that is articulated, investors and traders will be able to get around taxation. The other problem is that tax rates may also differ for someone who is an investor and someone who trades for a living.

“There is no clarity on how to calculate the gains from cryptocurrency and whether it should be traded on a par with capital assets or in case of a trader it should be treated as a stock in trade. Valuation of crypto is also a challenge, particularly on crypto to crypto trades,” said Meyyappan Nagappan, leader, **Digital Tax**, Nishith Desai Associates.

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