

Crypto Tax Canada

Cryptocurrencies are digital assets designed to function as a medium of exchange. Cryptos don't have physical expression and are not issued by a central authority or government. Cryptocurrencies are assigned a value and are controlled using strong encryption techniques.

In Canada, while cryptocurrencies are legal to use, they are not considered to be a legal tender currency but rather treated as a commodity. The Canada Revenue Agency (CRA) treats digital currencies as a commodity for income-tax purposes.

The CRA issued guidance that Canadian taxpayers are liable for taxes on crypto. You don't have to pay taxes for buying or holding cryptocurrency. Digital currencies are taxed in Canada as either capital gains or income tax.

Taxpayers in Canada are subjected to pay capital gains or business income tax after selling or mining cryptocurrency. This depends on whether your activity with cryptocurrency is considered a business or not. 50% of capital gains are taxable while 100% of business income is taxable. Consult with a tax professional if you are not certain whether you are operating on a personal or business level.

How cryptocurrencies are taxed in Canada

As earlier mentioned, the Canada Revenue Agency treats digital currencies as a commodity for tax purposes of the Income Tax Act. Transactions carried out with digital cryptos are subject to the same rules as barter transactions. This means that income from a digital currency will be treated either as an *income from a business/property* or a *capital gain*. Likewise, losses involving cryptocurrency are treated as *loss from a business/property* or a *capital loss*. The full amount (100%) of business or property income is taxable, while only half (50%) of capital gain is taxable.

Not all taxpayers who buy and sell crypto are carrying on business activity. As a taxpayer, you have to establish if a cryptocurrency activity results in income. This affects the way the revenue is treated for income tax purposes.

If you have more than one type of cryptocurrency in a digital wallet, each cryptocurrency is considered a separate digital asset and must be valued separately. For example, a Bitcoin would be valued separately from Ethereum.

Determining the value of cryptocurrency for taxes

The rules for barter transactions apply when cryptocurrency is used to pay for goods or services. Bartering occurs when two parties exchange goods or services and do so without using a legal currency. For instance, the Canada Revenue Agency explained that a vendor who accepts Bitcoin as payment for providing goods or services must include the fair market value of those goods in his or her business income.

The CRA's stance is that a fair market value is the highest price, expressed in dollars that a willing buyer would agree to in an open and unrestricted market. To determine the value of a cryptocurrency transaction when a direct value cannot be determined, you must use a reasonable method. You must keep records to show how you figured it out. You should also be consistent with the method used. If you use the value from one exchange broker one time, you should stick to the data from the same broker.

Reporting income or capital gain from the disposition of cryptocurrency

Disposition of cryptocurrency refers to the way you get rid of your digital assets. Holding cryptocurrency is not taxable but doing any of the following would lead to tax consequences.

When is cryptocurrency taxed?

As a Canadian, you do not generally have to pay tax for buying or holding a cryptocurrency. The CRA states that the disposition of cryptocurrency results in taxable consequences. Therefore, doing any of the following leads to tax liability.

- Selling cryptocurrency
- Gifting cryptocurrency
- Trading or exchanging cryptocurrency
- Converting cryptocurrency to CAD or other fiat currency
- Buying goods or services with cryptocurrency

The income you get from disposing your cryptocurrency may be considered as business income or capital gain. For you to report appropriately, you need to first establish what kind of income it is. How then do you determine if it is business income or capital gain?

When does cryptocurrency count as business income?

The way you report your cryptocurrency on your taxes will depend on whether it is business income or capital gain. The following are signs the CRA uses to categorize cryptocurrency disposition as a business income:

- A product or service is promoted
- The activity executed is for commercial reasons and done in a commercially viable way
- There is an intent to make profit (regardless of the likelihood to do so in the short term)
- Activities are carried out in a business-like manner which might include acquiring inventory or capital assets, or preparing a business plan

Business activities normally involve some repetitive process over time. In most cases, the activities need to be repeated for the CRA to categorize them as a business income. In some cases, a single transaction is enough to be considered a business.

Another factor that determines if there is a business activity is when the business commences. Keep in mind that if you are still in the early stages of your business, you may not be considered to have started a business. You practically have to undertake substantial activities that are part of your income-earning process.

Examples of what the CRA considers as cryptocurrency business are; **cryptocurrency mining**, **cryptocurrency trading**, **cryptocurrency exchange** and **ATMs**. You need to note that entrepreneurs who are still in the early stage of a crypto business need not report their business income until the following year's taxes. If you are not sure whether your cryptocurrency business would be considered as business income, you should work with a tax account knowledgeable about cryptocurrency taxation in Canada.

The [Interpretation Bulletin IT-479R](#) will help you to better figure out if transactions are income or capital gains.

When does cryptocurrency count as capital gains?

Cryptocurrency disposition can be categorized as capital gains if:

- The sale does not include carrying on a business
- Profit is made from the sale

When filing your taxes, you need to list any capital gains from selling cryptocurrency in the income portion of your taxes. However, only half of the capital gain is subjected to tax. You can offset any capital losses that result from selling cryptocurrency against capital gains. However, you cannot use capital gains from cryptocurrency to offset losses from other sources. For instance, suppose you earn less in your employment income than expected, this cannot offset the cryptocurrency-related capital gains.

In cases where you have greater capital losses than capital gains, you can carry forward your capital losses if you do not have any capital gains against which to offset the losses. This can be done for up to three years.

You can get more information on capital gains on [Guide T4037, Capital Gains](#).

Adjusted cost basis accounting for capital gains

As a Canadian crypto taxpayer, you are required to use the *adjusted cost basis* or *average cost* to calculate your capital gains. This means that you have to average the cost of your purchases in case of identical properties. In simple terms, you must calculate the single average for each crypto.

For instance, if you buy Bitcoin at three different times in the year and Ethereum at two different times and sell them off within the same year. The adjusted cost basis is pooled by finding the average of the three Bitcoin purchases and the average of the two Ethereum purchases.

How are specific cryptocurrency transactions taxed?

Understanding the classification of cryptocurrency transactions on taxes can be a bit confusing. The following situations will clarify the taxation a bit more and how each will be taxed.

- **Day-trading cryptocurrency**

If you choose to day trade cryptocurrency, that means you buy and sell it for a short period to make profit. The Canada Revenue Agency classifies day trading as a commercial income. Your net profits from day trading cryptocurrencies minus your net losses should be reported on your income tax return.

- **Mining cryptocurrency**

Mining is when you use a computer to complete mathematical problems and confirm cryptocurrency transactions. Mining is subject to capital gains for hobbyists. The cost basis is zero and the CRA does not allow deductions. In the case of business, it counts as inventory. It requires valuing the crypto at acquisition or its fair market value.

- **Holding cryptocurrency**

The CRA does not charge any taxes on cryptocurrency that a taxpayer holds.

- **Transferring cryptocurrency between wallets**

There is no tax for moving your cryptocurrency between two wallets. However, records are important as the price paid for the crypto in the original wallet will be used to calculate the cost basis.

- **Buying cryptocurrency**

There are no taxes for buying cryptocurrency. However, you should keep accurate records as the value at the time of purchase will be used to calculate the cost basis in the future when/if the cryptocurrency is sold.

- **Selling cryptocurrency for fiat**

When you sell cryptocurrency for fiat like CAD, it will be taxed as a capital gain. Note that each cryptocurrency must be listed separately. You will require both the price at the time of purchase and at the time of sale to calculate the cost basis.

- **Selling one cryptocurrency for another**

When you sell one cryptocurrency for another, it is taxed as capital gain. You will need the value of the cryptocurrency sold to calculate the cryptocurrency value at the time of sale.

For example, if you buy 1 of Cryptocurrency A for \$100 CAD. Then exchange it months later for 4 Cryptocurrency B. The value of Cryptocurrency B at the time of exchange is required to calculate the capital gains. Assuming the value of Cryptocurrency B is worth \$300 CAD, you will report a capital gain of \$200 CAD.

Using cryptocurrency to make purchase

The CRA considers using crypto to make a purchase as bartering. As such, you will do a similar calculation to when you sell a cryptocurrency. You must determine the value of the goods or services bought. This counts as the amount the cryptocurrency was sold for.

- **Earning cryptocurrency**

If you earn cryptocurrency as income, you will have to report it as income and also report the value at the time of acquisition.

Valuing cryptocurrencies either as capital property or inventory

You need to know how to value your cryptocurrencies for you to file your income tax return. This depends on whether they are considered as capital property or inventory. In order to correctly report any capital gains, you must record and track the adjusted cost base for cryptocurrencies held as capital property.

Use one of the following two methods of valuing inventory if the cryptocurrencies are considered to be inventory.

- at the end of the year, value each item in the inventory at the cost it was acquired or its fair market value
- at the end of the year, value the entire inventory at its fair market value

Depending on your type of business, you might have to use other methods of valuing inventory. Click [here](#) to get more information on valuing inventory.

Tax scam warning

You should avoid any scam as regards paying your crypto taxes. A scammer will call a victim pretending to be an agent of the Canada Revenue Agency. The scammer informs the victim that he or she owes a tax debt that he or she must pay to prevent prosecution. The scammer then directs the victim to pay using Bitcoin or any other cryptocurrency. The scammer also directs the victim to the nearest crypto exchange where he or she is to exchange his/her cash for cryptocurrency and fund the scammers' digital wallets.

Note that the CRA will never ask for payment in Bitcoin or any other cryptocurrency. Verify the legitimacy of any suspicious phone where the speaker claims to be with the CRS. Get the true

phone number of the CRA and call the agency to verify the status of your account. Never attempt to call a phone number given by the suspicious caller. You may end up speaking with the scammer's accomplice.

Final thoughts.....

Canada taxes cryptocurrency earnings and it is vital to consult with a tax accountant who specializes in cryptocurrency. Having an expert complete your taxes ensures you follow the proper protocol. It is also important that you keep accurate records of your cryptocurrency transactions. The CRA has clear [guidelines on cryptocurrencies and taxes](#) to further help you.