

Who should I tell about my Crypto's?

With the price of the most talked about Crypto currency Bitcoin, having stabilised at the \$ 4 000 dollar level (R 50 000), many investors could be licking their wounds with the price declining by more than 50% during the last 12 months.

The question many investors could be asking is where to from here?

Even though most of the hype and speculation focus on the investment case for or against cryptocurrencies, the purpose of this article is not to get lost in the merits for, or against crypto currencies, but rather to talk to the financial planning implications of investing in Crypto currencies with a specific focus on estate and tax planning.

Before we delve into the detail, let's pause for a moment to consider the merits of appropriate planning and specifically look at how widely Crypto currencies are used in South Africa. Even though there have been a number of research papers on the use and acceptance of Crypto currencies in South Africa, it remains difficult to accurately determine the extent of investment into Crypto currencies.

From the various research reports, we can make the following conclusions:

- Awareness of Crypto currencies varies from 40% to 70% across income groups.
- Early adopters include "investors in the following industries: Information Technology, Financial Services, Marketing & Advertising, and Software & Banking
- Bitcoin is by far the preferred Crypto Currency, followed by Ethereum and Litecoin
- After the early hype and "speculative" investments, most investors are investing for the long term and classify themselves as "HODLers" i.e. long term holders
- From the research conducted by Luno (sample of +/- 1 000 middle income to high income consumers), one in three respondents are invested in Crypto currencies and one in two are interested in buying Crypto currencies

It is evident, that there is an increased need for appropriate financial planning and integration of Crypto currencies into a broader financial planning framework.

Let's start with the emotional argument and the importance of disclosing cryptocurrencies to family and or friends, to ensure this does not disappear into cyberspace on your parting.

Investing in crypto currencies provides many different layers of security, including: online authentication, public wallets, private wallets (only known to the investor) and potentially some method of verification i.e. via a cell phone. To ensure that your investments are not lost on your passing, it is important that appropriate documentation is kept as part of the estate planning process. At a minimum the assets and the platform / exchange that was utilised to invest, should be included as part of your estate plan. Further an investor with significant assets in crypto currencies can consider leaving the details of their crypto investments in a secure place i.e. in a safe or a safety deposit box, allowing relatives access to these investments in case of death or incapacity. Most crypto currency exchanges do have a policy with respect to how they treat investments upon death.

The second less emotional question is; should investors disclose their Crypto assets in their income tax returns?

SARS'S clarified this in a media statement on the tax treatment of crypto currencies in 2018, confirming that the South African Revenue Service (SARS) will continue to apply normal income tax rules to cryptocurrencies.

Broadly one can categorise crypto transactions into the following categories:

- Generating income in the course of business
This is referred to as mining crypto currencies. Such income is subject to normal income tax. The person may further be liable to register as a provisional taxpayer if the total taxable income received exceeds the tax threshold for the financial year.
- Receiving Crypto currencies as payment
This should be included as income for income tax purposes
- Investing in cryptocurrencies
If the nature of the investment is for long term investment, any potential gain or loss could be classified as capital.
- Speculating in cryptocurrencies
Buying and selling cryptocurrencies with the intent of making a profit can be classified as speculating and as such this profit or loss will be included as income.

Even though the above should provide some guidance, each case will be assessed on merit and on the intention of the tax payer.

With many investors having only invested "late" in the cycle and potentially made losses in either investing in or speculating in crypto currencies, it is important to note that any potential losses can be offset against other income or capital gains as per normal income tax rules.

Given the increased focus by various regulators on; Fintec, Crypto Currencies and the taxation of worldwide assets, it is only a matter of time until the loopholes in this once "secret" investment category will be tightened. Further, as per the Tax Administration Act, taxpayers may be subject to penalties, depending on the behaviour involved, if they do not disclose their dealings in crypto currencies.

We would strongly advise investors to include Crypto currencies in both their tax and estate planning in consultation with a financial advisor or tax practitioner.

Should you want to discuss further contact:



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