Bitcoin Tax: Is the CRA Going After Crypto Income Now?

Description

One of the grim but crucial duties of the CRA is to track every dollar of income Canadians earn and to ensure that they are paying what’s due to the government. This can be their regular job income, business income, or even investment income, which is treated a bit differently.

The CRA has refined its taxation system over decades, but there is always something new that the authority has to deal with. And for the last few years, that something is cryptocurrencies.

The CRA and crypto income taxation

The tax system currently treats cryptocurrencies as a digital asset, and crypto transactions can be taxed one of two ways:

- Capital gains
- Business income

Technically, crypto investors and traders have to report every disposition of crypto assets, which includes giving them away as a gift or exchanging one crypto for another. And if the CRA decides to tax your crypto dispositions as business income, your profits are likely to be cut short quite drastically. So, investors would prefer if these dispositions are taxed as capital gains.

The problem was that the CRA had relatively limited insight and observation when it came to crypto transactions. The cryptocurrencies are not centrally regulated, and the onus of reporting crypto dispositions accurately and truthfully fell on the investors.

But the CRA has taken back control in this arena. With a court order, the CRA has forced Coinsquare, the country’s largest cryptocurrency exchange, to share the transaction history of its users — and not just from now on. The CRA is looking at the records going as far back as 2013 to ensure that people have been truthful (on their tax returns) about their crypto dispositions. Guilty individuals might be subjected to legal action.

If you are worried about the taxation intricacies of the cryptocurrencies, consider “investing” in the asset indirectly via crypto stocks and ETFs.

The Bitcoin Fund

Bitcoin Fund (TSX:QBTC.U), created and managed by 3iQ Digital Management, is hedged in both CAD and USD. While the management fee of the fund is quite high (almost on the level of mutual funds), it offers you direct exposure to the underlying asset — i.e., Bitcoin, the premier cryptocurrency. The fund, along with the crypto itself, fell quite a bit (about 52.8%) when Bitcoin fell earlier this year.

But now that it’s on its way to recovery, the fund is growing as well. It has grown over 60% since its mid-July dip. As of now, the one stock of this fund offers almost 0.00111 BTC per unit. One benefit of investing in this fund instead of Bitcoin directly is that you can capitalize on the same level of growth inside tax-sheltered accounts like the TFSA and RRSP — something you can’t do if you buy the currency directly.

A crypto mining stock

Digihost Technology (TSXV:DGHI) is a Toronto-based mining company with over 12,000 miners at its disposal, and it mined over 100 Bitcoins in the first quarter alone. Unlike other, larger miners listed in Canadian stock exchanges that operated multiple sites, this $161 million market-cap company has all its miners in a single location.

The company, however, focused on sustainable mining practices, forestalling any issues that might arise Bitcoin mining’s association with climate change. The reason you might want to invest in crypto via a miner is that it might offer you more pronounced gains when the Bitcoin next spikes. The last time the crypto peaked, the stock spiked over 680% within the month of February.

Foolish takeaway

The CRA will find a way to not just properly track and tax crypto dispositions; it might establish a clear distinction between crypto’s taxation as business income and as capital gains. That alone will have a huge impact on all Canadian crypto investors. However, you can enjoy the same gains by investing in crypto-oriented tech stocks and placing them in your TFSA.

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