



The Sad Truth About Cryptocurrency Profits? Taxes

Description

As [crypto gains](#) have become more lucrative over the last few years, many investors have been blindsided by an old foe: taxes.

Yes, for as exciting as crypto investing can be, selling, gifting, or using it to buy something can result in a fairly hefty tax bill. Not only are tax bills a major nuisance, but on top of paying them, you also have to calculate them accurately. That can be a major headache, especially if you're unaware how the CRA will tax your crypto gains.

To help you stay on top of your tax filing, here's a quick rundown of how your crypto ventures may be taxed.

Business income or capital gains?

First off, the CRA taxes cryptocurrency as a commodity, not a currency. As such, you'll report your gains or losses on your tax return, as you would other assets. How much you pay in taxes (or deduct via losses) depends on one important distinction: whether or not your crypto trade are *business* income.

How do you know that? The CRA isn't exactly clear (on their web page, they say it "depends on circumstances"). But, in general, if you're trading crypto with a business plan — if you're trading every day or for the sole purpose of making profits — your crypto venture is most likely business income. The CRA will determine this on a case-by-case basis, so if you're in doubt, consult a tax advisor.

The distinction is important, because it determines if the CRA will tax 100% of your gains or only 50%. As a business, *all* of your crypto gains are taxable, whereas as an enthusiast, only half are. Either way, the CRA will add eligible crypto gains to your taxable income and then tax you at your marginal tax rate.

Finally, keep in mind: the CRA could consider *one* crypto transaction to be business income, whereas others they could see as capital gains. It can be a tricky business, so again, when in doubt, call up a tax professional.

What about using crypto to buy something?

Yes, unfortunately, when you use crypto to buy a good or service, such as a car or new furniture, you will trigger a tax event. The CRA considers the following to be taxable events:

- Using crypto to buy goods or services
- Selling your crypto or gifting it to someone
- Exchanging one crypto for another
- Converting crypto to fiat dollars, such as CAD

In these cases, the CRA will look at how much your crypto has grown from the time you obtained it to the time you exchanged it for something else. For example, let's say you bought Bitcoin at \$10,000. A few years later, you decide to use your Bitcoin to buy a **Tesla** at \$60,000. Between the time you first bought Bitcoin and the time you exchanged it, your crypto grew \$50,000. The CRA will then tax the \$50,000 at your marginal tax rate.

The same is true for exchanging one crypto for another. Let's say instead of buying a Tesla, you decide to exchange your \$60,000 of Bitcoin for Cardano. Again, because your Bitcoin grew by \$50,000 from the time you bought it, the CRA will tax the \$50,000.

What about crypto mining?

Yes — the CRA taxes crypto mining. But, again, it depends on whether you mine for a living or as a personal hobby. If you mine in a “business-like manner,” as in, you have a business plan and a garage full of computers, the CRA will tax 100% of your profits. If you mine for the fun of it, for pleasure or entertainment, the CRA will only tax 50% of whatever you earn.

Is there a way around paying crypto taxes?

Like stocks, the only time you pay taxes on crypto is when you lock in your gains. So, unless you use your crypto to buy something, exchange it for CAD or another crypto, or gift it to someone else, you won't trigger a tax event. The moment you do, however, you'll be liable for paying taxes.

There's no way around it: if you want to invest in crypto, you'll pay taxes. The only way to avoid paying taxes on cryptocurrency is buy shares of an [exchange-traded fund \(ETF\)](#), one that follows crypto, and keep your ETF in a tax-advantaged account, such as a TFSA or RRSP. Your ETF will never beat the market (it only follows it), so you won't get the super hefty gains of other crypto investors. But, hey, if you're sick of paying taxes, maybe following the market is right for you.

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