

Lithuanian guidelines for taxing income from cryptocurrency (3/34/18)

In cooperation with the Lithuanian Ministry of Finance, on 11 June 2018 the Lithuanian tax authority published [official guidelines on how to tax income arising from cryptocurrencies](#). This article provides a summary of the guidelines.

General provisions

Bitcoin, Ethereum, Ripple, Litecoin etc are considered to be the most common types of virtual currencies and are becoming increasingly popular among consumers (individuals as well as entities). For tax purposes a virtual currency will always be considered an instrument that by its nature is analogous to specified measures (i.e. Bitcoin, Ethereum, Ripple, Litecoin).

However, for selective taxes some other types of instruments (e.g. various tokens) may be recognised as virtual currency. Tokens are issued using an initial coin offering through blockchain, a distributed ledger technology. Two types of tokens can be recognised: security tokens and utility tokens. Such tokens are defined in their main characteristics via white papers. The Bank of Lithuania may or may not recognise the tokens as securities for tax purposes.

It should be noted that under the Corporate Income Tax Act and the Personal Income Tax Act, according to the substance and economic purpose of transactions carried out, a virtual currency is recognised as a current asset that may be used as a means of payment for goods and services or held for sale. For VAT purposes a virtual currency is considered the same currency as euros, dollars etc.

Since the tax aspects of activities related to virtual currencies and tokens are inseparable from accounting documents, Lithuanian books are kept and accounting documents drawn up in euros, and so all transactions in virtual currency are recorded in euros.

The exchange rate of a virtual currency (or token) against the euro is not regulated by legislation. This means that all available information and comparable data on the market may be used in setting this exchange rate. Basically, however, the rules adopted to account for a virtual currency (or token), as well as the source of the published rate of the euro against a virtual currency (or token) used to record transactions and events in the books, should be specified by the economic entity in its own accounting policy. Since the exchange rate of a virtual currency (or token) may fluctuate significantly over a short period of time, the accounting policy should specify not only the source but also the point in time when the fixed exchange rate will be used for accounting and tax compliance.

Publication of the guidelines is a step forward for individuals and entities dealing in cryptocurrencies. However, since the guidelines were issued recently, there are no practical examples yet to evaluate whether the described approach is suitable for the users and what impact it makes on the country's economy as a whole.

(to be continued)