Producing and selling cryptocurrency: Lithuanian tax aspects (1) (2/35/18)

This article looks at the Lithuanian income tax treatment of producing and selling virtual currency.

Corporate income tax (CIT)

No taxable income arises when an entity produces virtual currency. When selling the virtual currency it has produced, the entity should measure the difference between the selling price and the production cost to determine taxable income and any taxable profit.

Personal income tax (PIT)

Virtual currency is treated as property. Thus, when incidental income arising on the sale of virtual currency is received, it is taxable in the same way as any other income arising on the sale of assets or any other transfer of ownership. In this case, PIT is charged on the difference between the selling price and the acquisition cost.

Lithuanian residents' income from trading in virtual currency or from selling any virtual currency they have produced may be taxed as income from carrying on a trade if such activities are performed with the aim of making individual profits, i.e. the resident conducts those activities for a continuous period, and the activities satisfy the aggregate criteria for individual activities (continuity, autonomy, and pursuit of economic benefits). It is important to note that residents may provide virtual currency mining, cloud mining and other services by using their own hardware (e.g. renting it) or by using the end-user's hardware etc. A resident who provides virtual currency mining services will be considered a sole trader.

Payment for goods and services in virtual currency

It makes no difference to the tax treatment if a payment to an entity or resident sole trader is made in any virtual currency, in cash, or by bank transfer, since all payments should be recorded in the books.

CIT

The supplier's CIT treatment

Income arising on the supply of goods or services is recognised as earned when goods are sold or services carried out. If the customer pays in virtual currency, the entity will be considered to have acquired assets (virtual currency) for the amount received.

The buyer's/end-user's CIT treatment

If an entity pays for goods or services in virtual currency, the acquisition cost of those items will be an amount that corresponds to the selling price of the virtual currency. In this case, the entity recognises income from virtual currency (selling price less acquisition cost) and registers the acquisition of goods or services at the same time.

CIT treatment of a resident trader

When payment for goods or services is made in virtual currency, an amount corresponding to the market price of those items will be treated as income from individual activities. A resident (including a sole trader) who pays for goods or services in a virtual currency is considered to be selling that currency at a price equal to the market price of those items.

Wages (fringe benefits) in virtual currency

Wages should be paid in cash under the Lithuanian Labour Code. Any goods or services the employer or any other person provides to an employee are not considered part of their wages. Thus, an incentive transferred in virtual currency to the employee will attract PIT as income in kind. Such income is included in employment-related income on which the employer should calculate, pay and report PIT.

Transactions in virtual currency

CIT

Virtual currency can be bought not only through an initial coin offering but also in direct transactions, or at a virtual currency exchange office or any other organised trading venue for traditional currency or other virtual currencies. In this case, taxable income accrues to the entity that transfers virtual currency. The difference between the selling price and the acquisition cost will be treated as income from trading in virtual currency.

PIT

The difference between the selling price and acquisition cost of virtual currency is recognised as income from trading in virtual currency, and the difference between the proceeds from the sale of virtual currency and the amount of allowable deductions is recognised as a resident sole trader's income. A resident who exchanges two virtual currencies will be considered to have sold one virtual currency and bought the other one.