

# Producing and selling cryptocurrency: Lithuanian tax aspects (2) (3/40/18)

This is the last article in our series on Lithuanian income tax aspects of virtual currencies. A token is a unit that represents an asset or utility that can be granted or purchased. This article describes the purpose of tokens and their correct tax treatment for issuers and buyers.

## Taxation of tokens assigned to founders

To support a company's founders and keep them in as long as possible, some of the tokens issued through an ICO may be assigned to them without payment. The tokens assigned to founders are not activated (i.e. they grant no rights, cannot be exchanged, sold etc until activated) and may be used only after a set deadline.

Since tokens are transferred through the ICO without payment and are not activated, they are exempt from personal income tax (PIT). However, as soon as such a token is activated, sold, exchanged or otherwise transferred, it will be recognised as income subject to PIT.

## Tokens as remuneration

Where other persons are involved in implementing an ICO project (e.g. programmers or consultants) and are paid or agreed to be paid in tokens for their services, the value of such tokens that attracts income tax is based on the market price of identical or similar services.

Guidelines issued by the Lithuanian tax authorities look at three groups of tokens and describe their taxation from the viewpoint of issuers and buyers:

	Tokens as securities	Tokens granting rights to products/ services	Tokens granting rights to assets
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Tax liabilities for issuers	<p>If tokens issued by an entity through an ICO fall under the definition of securities in the Lithuanian Civil Code, the entity's income from the transaction is exempt from CIT (e.g. granting the right to ownership, company management or other shareholder rights).</p> <p>However, if the funds (or some of them) received for circulated tokens treated as securities do not correspond to the amount of commitments, i.e. the issue of tokens is not required to give any commitment or the given commitment is less than the amount of funds collected, the amounts collected are attributed to the entity's taxable income.</p>	<p>The issue of tokens is a transfer of cash for the issuing entity rather than income. The entity should recognise an advance payment. Income cannot be recognised until the goods or services are sold or the deadline for using the token expires.</p>	<p>The funds collected by the issuing entity should be recognised as income when the token is transferred into another person's ownership.</p>
Tax liabilities for buyers	<p>If the buying entity earns interest, this is considered a capital gain (with CIT charged on the difference between the selling price and the acquisition cost). However, if the buyer is an individual, income of up to €500 per calendar year is exempt from PIT (with any excess attracting capital gains tax).</p>	<p>The entity that has acquired tokens granting the right to goods or services should recognise the amounts as advances until the actual exercise of those rights. The individual may deduct the cost of tokens in the tax period.</p>	<p>Tokens that give the buyer the right to an asset should be recognised as financial assets at the time of purchase.</p>