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United for better tax administration

NTO WEBINAR

"Understanding and Addressing Tax Compliance in the Age of Cryptocurrencies"

1. Background

One of the primary manifestations of increased digitisation of national economies is the rise of non-state-backed digital assets, popularly called cryptocurrencies. These digital assets are blockchain-based, digital unit of exchange, peer-to-peer payment systems that rely on cryptography. While it is undisputed that the technology that underpins these currencies are revolutionary, their inherent characteristics of decentralisation, global outreach, relative ease of use, and lack of deterrence[1] provide positive incentives for tax non-compliance, illicit financial flows (IFFs), and financial crimes.

The advent of these technologies and their increasing popularity raise macroeconomic policy questions on money supply and, importantly, questions on tax collection and administration. Specifically, the muddled classification[2] of cryptocurrencies across tax jurisdictions[3], the rapid evolution associated with the technologies, and the propensity of tax avoidance and evasion given the innate (pseudo) anonymity of its users are some of the challenges associated with the tax administration of cryptocurrencies.

Understanding the implications of these new currencies and technologies underpins the Network of Tax Organisations (NTO) webinar that will take place on the **18th of November 2022**. The webinar will bring together tax administrators and experts to exchange experiences, best practices, tools, and mechanisms to tackle the tax administration challenges of cryptocurrencies.

2. Objectives

This peer learning event aims to facilitate engagement among tax administrations on salient features of cryptocurrency tax crimes and share best practices on the implementation of innovative tools, solutions, and approaches for enhanced tax compliance in the age of new tech-based currencies.

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1 Kethineni, S. and Cao, Y., 2019. The Rise in Popularity of Cryptocurrency and Associated Criminal Activity. International Criminal Justice Review, 30(3), pp. 324-344.

2 There are rapid changes regarding the classification of these technologies. Specifically, outputs from the International Financial Reporting Standards (IFRS) and the European Union are trailblazing the classification of digital assets.

3 Bradley, I., 2022. *How taxes on cryptocurrencies and digital assets will soon take shape*. [online] EY. Available at: https://www.ey.com/en_gl/tax/how-taxes-on-cryptocurrencies-and-digital-assets-will-soon-take-shape [Accessed 25 August 2022].

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3. Content

With a global market capitalisation of USD 1.1 trillion[4], the increasing popularity of cryptocurrencies and cryptoassests presents contemporary challenges to tax administrators in a way that requires constant appraisals of current measures to ensure taxpayer compliance. Given the non-traditional modus of cryptocurrencies, tax administrators must re-examine the suitability of established processes, such as Know-Your-Customers (KYC), Valuation, Compulsory Reporting, and anti-Money Laundry Schemes (AML) vis-a-vis the changing taxation landscape brought about by these technologies. Failure to adapt to these changes would likely worsen the tax collection capabilities of countries.

The inherent decentralisation, lack of intermediary, and anonymity of economic activities associated with cryptocurrencies compounds the suspicion that they facilitate non-compliance, encourage IFFs, and tax avoidance and evasion. For instance, Barclays, using a 2017 United States Internal Revenue Service (IRS) produced data, purports that non-payment of tax liabilities associated with cryptocurrencies contributes to about 10% of the total tax gap in the United States[5][6]. Similarly, EUROPOL argued that the advent of cryptocurrencies had established a new frontier for money laundering activities[7].

While money laundering through conventional currencies remains widespread, money laundering via cryptocurrencies has rapidly increased in the past five years. According to a report by Chain Analysis, a US-domiciled blockchain data company, USD 8.6 billion worth of cryptocurrencies was laundered in 2021 – a significant jump from the USD 4.3 billion that was laundered in 2017[8].

4 Pechman, M., 2022. 2 metrics signal the $1.1T crypto market cap resistance will hold. [online] Cointelegraph. Available at: https://cointelegraph.com/news/2-metrics-signal-the-1-1t-crypto-market-cap-resistance-will-hold [Accessed 29 August 2022].

5 Vega, N., 2022. The IRS may be missing out on $50 billion a year in unpaid crypto taxes—and a crackdown is underway. [online] CNBC. Available at: https://www.cnbc.com/2022/05/18/irs-may-be-missing-out-on-50-billion-dollars-a-year-in-unpaid-crypto-taxes.html [Accessed 29 August 2022].

6 Davison, L., 2022. Crypto Investors Are Likely Paying Less Than Half the Taxes They Owe. [online] Bloomberg. Available at: https://www.bloomberg.com/news/articles/2022-05-11/crypto-investors-likely-paying-less-than-half-the-taxes-they-owe [Accessed 29 August 2022].

7 EUROPOL, 2022. Cryptocurrencies: Tracing the Evolution of Criminal Finances. Europol Spotlight Report series. Luxembourg: EUROPOL, pp. https://www.europol.europa.eu/cms/sites/default/files/documents/Europol%20Spotlight%20-%20Cryptocurrencies%20-%20Tracing%20the%20evolution%20of%20criminal%20finances.pdf.

8 Chainalysis, 2022. DeFi Takes on Bigger Role in Money Laundering But Small Group of Centralized Services Still Dominate – Chainalysis. [online] Chainalysis. Available at: https://blog.chainalysis.com/reports/2022-crypto-crime-report-preview-cryptocurrency-money-laundering/ [Accessed 29 August 2022].

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The increasing recognition of cryptocurrencies as alternative instruments to store value and as a medium of exchange is especially pertinent for developing countries. On the one hand, it facilitates rapid remittances and expands financial inclusion[9]. On the other hand, cryptocurrencies pose significant threats to developing countries' domestic revenue collection capabilities as they offer features similar to traditional tax havens. With the increasingly successful measures against traditional tax havens, cryptocurrencies, given their unregulated, non-reliance on intermediaries such as banks, and pseudo-anonymous modus, offer alternative channels for IFFs comparable to tax havens.

The above expatiation indicates that cryptocurrencies and associated technologies could, on the one hand, revolutionise the monetary and tax policies of nation-states. On the other hand, they embody risks that, if left unchecked, could unravel the capabilities of states to mobilise domestic revenue and close tax gaps. Certainly, it shows that cryptocurrencies pose national as well as cross-border risks. Consequently, tackling these associated risks requires national and international efforts. It necessitates taxpayer education, multistakeholder and private-public partnerships as well as cross-jurisdictional collaboration. This webinar endeavours to foster this variety of collaboration.

The webinar will feature presentations from the Canada Revenue Authority (CRA) and TRM Labs, highlighting the implications of cryptocurrencies for tax administrators and the tools and mechanisms that could facilitate tax compliance of cryptocurrency-related economic activities. It will further feature an international tax organisation perspective from Inter-American Center for Tax Administrations (CIAT).

4. Guiding Questions to the Speakers:

- ✓ What are the most common patterns of crypto associated tax non-compliance patterns in your Jurisdiction?
- ✓ What are the challenges of tackling this cryptocurrency associated tax non-compliance in your jurisdiction?
- ✓ How can regional and international tax organisations enhance their information exchange mechanisms in the fight against cryptocurrency-based tax evasion patterns?

9 UNCTAD, 2022. The cost of doing too little too late: How cryptocurrencies can undermine domestic resource mobilization in developing countries. UNCTAD Policy Brief No. 102 (UNCTAD/PRESS/PB/2022/10). [online] UNCTAD. Available at: https://unctad.org/system/files/official-document/presspb2022d10_en.pdf [Accessed 29 August 2022].

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5. Agenda

The event will take place on Friday, **18 November 2022 at 12.30 (UTC time).**

Time (UTC)	Agenda item	Speakers
12:30 - 12:40	Opening and welcome remarks	Mr. Ivan Kantardjiski (GP IFFs, GIZ)
12:40 - 13:10	Taxation of Cryptocurrencies: An experience from Canada • Implication for tax authorities • Valuation tools • Monitoring mechanisms	Ms. Jennifer Lane and Mr. Michael Lovell, Canada Revenue Agency.
13:10 - 13:40	The use of blockchain data and advanced analytics against crypto related IFFs	Mr. Thomas Armstrong, TRM Labs. Ms. Trisha M. Turner, Internal Revenue Service (IRS), United States.
13:40 - 13:50	Break/Networking	
13:50 - 14:00	NTO Perspective	Marcio Ferreira Verdi, Executive Secretary, CIAT
14:00 - 14:25	Q&A and open discussion	Moderator: Mr. Ivan Kantardjiski (GIZ)
14:25 - 14:30	Closing remarks	Mr. Ivan Kantardjiski (GIZ)

6. Format and Logistical Considerations

The event is organised and facilitated by the Network of Tax Organization (NTO), supported by the International Tax Compact (ITC) in its function as the NTO Secretariat. The webinar will take place via the video conferencing tool "Hopin" which will also feature an exhibition area with all webinar materials and a networking possibility to benefit from in the break. The meeting language will be in English, with simultaneous interpretation into French and Spanish. Participation is possible by registering through the link shared on the NTO website. After registration, participants will receive a link to the platform and a calendar blocker.

7. Follow-up processes

The webinar is intended to foster exchange of experiences and peer-to-peer learning on the challenges of tax collection among tax administrations. A summary of the main outcomes of the discussion and policy recommendations will be prepared by the NTO Secretariat for dissemination through the NTO website and the ITC social media accounts to encourage further consultation.

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