

7 May 2020

GST policy issues
C/- Deputy Commissioner, Policy and Strategy
Inland Revenue Department
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To whom it may concern,

GST policy issues – An officials’ issues paper

1. Introduction

- 1.1. The Blockchain Association of New Zealand (BlockchainNZ) wishes to thank the IRD for the opportunity to submit on the *GST policy issues – An officials’ issues paper*. We suggest this is an excellent opportunity to discuss the future of cryptocurrency.
- 1.2. We would also like to commend you on a very thorough report. It covers many of the key issues required for consideration and we wished to again applaud you for taking cryptocurrency seriously and understanding that these issues impact an important and high growth sector of our economy. We have only commented on Chapter 3, the cryptocurrency section of your issues paper
- 1.3. BlockchainNZ is happy to offer any further assistance in helping the IRD work through your issues with cryptocurrency.

2. Background

- 2.1. BlockchainNZ was established in 2016 as a membership-based group to support and grow the blockchain and crypto-community in New Zealand. We are an association of organisations and individuals that represent this rapidly emerging business sector and those engaged in the wider global Financial Services, IT, and public sector communities.
- 2.2. As part of the Tech Alliance we represent a diverse group of New Zealand technology businesses and professionals, dedicated to continuing New Zealand’s innovation and growing jobs and skills to further enhance New Zealand’s competitive position internationally.
- 2.3. Our vision is to help make New Zealand become a global hub for blockchain innovation.
- 2.4. Blockchain technology is changing our understanding of transparency, authentication, trust, and contracts in the private and public sector. It is also accelerating the move towards a globalised society and many people believe it will fundamentally change how business and society operates.
- 2.5. BlockchainNZ has undertaken to provide New Zealand organisations with opportunities for advancing knowledge around blockchain, connecting with the blockchain tech ecosystem and promoting awareness of its potential. As a member organisation we have come together to lead a programme of work, taking a key role in growing our country’s capability to maximise the opportunities enabled by blockchain technology and address any challenges.

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3. Cryptocurrency

- 3.1. BlockchainNZ agrees with you that the crypto-assets sector is growing fast. Companies involved in blockchain technology generally have been growing exponentially.
- 3.2. Internationally by the beginning of 2019, blockchain start-ups made up \$783 million US in investment having grown drastically since its mainstream introduction around 2012, with total investment funding rising from just one million dollars to over \$4.15 billion in 2018¹.
- 3.3. As at March 2020, New Zealand saw around 1500 Bitcoin Trading Companies (BTC), approximately double those from March 2019 where turnover was around 740 BTC. This is for all NZD exchange pairs, NZD brokers and P2P through LocalBitcoins. The true turnover would be higher if all P2P and offline sales were included.

Should different types of crypto-assets have different GST treatments? And how should a crypto-asset be defined?

- 3.4. BlockchainNZ supports your proposal to exclude cryptocurrencies (crypto-assets) from GST and their financial arrangement rules, to ensure these rules do not impose barriers to developing new products, raising capital or investing through crypto-assets. We agree the tax system needs to maintain its neutrality and minimise distortions.
- 3.5. A broad exemption extending to all crypto-assets, rather than different classes would future proof its definition should changes associated with their rights and features arise. We agree that because of their innovative nature, they often have different features from other investment products.
- 3.6. Having a broad definition also supports our broad-based GST system that applies to nearly all goods and services. A GST applied service is broadly defined to mean anything which is not goods or money and financial services. Having crypto-assets is in line with this definition, regardless of the differing rights and features. This could also avoid any distortions where different GST penalties apply to different types of crypto asset fund-raising events.
- 3.7. A clear definition of crypto-assets is extremely important and requires careful consideration. BlockchainNZ is happy to assist the IRD to determine a definition. Our membership includes some of the key companies currently involved in this space and has the technical expertise to help establish a crypto-assets definition. Fortnite currently uses V-Bucks as a virtual on-line currency and if the definition is not carefully considered might be included unintentionally.
- 3.8. A broad exemption should not create any significant revenue loss for the New Zealand Government as most transactions are cross-border. Cross-border transactions are likely to be zero rated and outside of the scope of GST. The individuals also not being identified in the transactions would also make compliance (and collection of any GST revenue) very difficult.
- 3.9. Making all supplies of crypto-assets not subject to GST, ensures residents and non-residents will be treated equally and does not create any unintended distortions. One potential distortion could arise, if GST were applied, making it preferable to sell a crypto-asset to non-residents due to complexity, discouraging New Zealanders from using New Zealand-based exchanges. We suggest this could hinder the development of the New Zealand market making it more difficult and costly for New Zealand businesses and investors to convert crypto-assets to New Zealand dollars. This could also make crypto-assets too expensive and potentially deter those looking to enter this market.

¹ <https://www.statista.com/statistics/621207/worldwide-blockchain-startup-financing-history/>

Issues with applying GST to crypto-assets and the financial arrangement rules

- 3.10. The significant number of potential variables associated with crypto-assets being traded or sold, could lead to significant uncertainty regarding its GST treatment. We therefore support that crypto assets and their subsequent financial arrangements should not be subject to GST, rather than an exemption or being zero-rated.
- 3.11. BlockchainNZ agrees with your assertion that crypto-assets have different rights or features, and no universal standard for classification, and are likely to change as they develop. A subsequent variable GST treatment may distort decisions around the type of crypto-assets a business may choose to develop and issue, whether they issue the token in New Zealand or offshore, and what type of tokens New Zealand investors choose to buy or sell.
- 3.12. Similarly, financial arrangements are also likely to see significant variability, and should be broadly applied similar to the crypto-assets.
- 3.13. Furthermore, we agree with your assertion that the global nature of crypto-asset markets means that businesses and investors who trade crypto-assets could potentially have a mix of supplies to non-residents and supplies to New Zealand residents. It would be impractical to identify if the supply of a crypto-asset is to a resident or a non-resident.

Application date

- 3.14. BlockchainNZ strongly supports the proposed retrospective application date for GST and their financial arrangements from 1 January 2009.

Other services related to crypto-assets and tax issues

- 3.15. We agree with GST continuing to apply to supplies of goods and services bought using a crypto-asset. Removing the GST removes any unintended distortions with double taxation once the end goods and services are purchased.

4. Conclusion

- 4.1. Thank-you again for the opportunity to provide feedback on *GST policy issues – An officials’ issues paper*. We are again happy to engage further with the IRD to discuss our submission and provide any further assistance.
- 4.2. BlockchainNZ broadly supports your proposed approach to cryptocurrency. We suggest a simpler and more certain our approach to the tax rules is likely to contribute to the further growth and development of the crypto-asset sector in New Zealand. We also broadly support Bell Gully’s submission on your issues paper.
- 4.3. If you have any further queries do not hesitate to contact Janine Grainger, janine@easycrypto.nz, or (027) 337-9173.

On behalf of,

The Blockchain New Zealand committee