

State Ruling

204-501, Payments, Mining, and Investment Income-- Sales and use-- Taxability of persons and transactions-- Coins, bullion, flags, and commemorative items-- Virtual currency

¶204-501. Payments, Mining, and Investment Income, Washington Department of Revenue, August 20, 2019.

Sales and use: Taxability of persons and transactions: Coins, bullion, flags, and commemorative items: Virtual currency.— Transactions involving the receipt of bitcoin for the exchange of goods or services are subject to Washington sales tax and business and occupation (B&O) tax.

Where the seller immediately converts bitcoin received to U.S. dollars, the tax is computed on the converted amount. When the seller does not immediately convert the bitcoin received to U.S. dollars, the measure of tax is the value of bitcoin as of the date of sale. Sellers are required to retain documentation showing the time of sale, the value of the converted amount, and documentation of the transaction.

Business and occupation: Business and occupation tax specific businesses: Coins and precious metal bullion: Virtual currency.— Transactions involving the receipt of bitcoin for the exchange of goods or services are subject to Washington sales tax and business and occupation (B&O) tax.

Block awards and transaction fees earned through bitcoin mining are subject to the service and other activities B&O tax. The measure of the tax is determined by the value of the bitcoin at the time it is obtained by the miner. Documentation that miners must retain include a dated record of the amount of bitcoin received and a dated record of bitcoin's value published on a reliable cryptocurrency pricing index.

Individuals that buy and sell bitcoin for investment purposes are not subject to tax on their gains, as a B&O tax deduction is available for amounts derived from investments.

Income from interest, commissions, trading, dividends, and other sources realized from bitcoin investments by stockbrokers are reportable as gross income and is subject to the service and other activities B&O tax. Furthermore, banks cannot take a deduction for income derived from investments; therefore income from gains on bitcoin investments is also subject to service and other activities B&O tax.

Interim Statement Regarding Bitcoin: Payments, Mining, and Investment Income

August 20, 2019

What is bitcoin?

A form of payment that only exists digitally is often referred to as a "cryptocurrency". Bitcoin has no central issuing or regulating authority, but instead uses a decentralized system to record transactions and manage the issuance of new units. Bitcoin relies on cryptography to prevent counterfeiting and fraudulent transactions.¹

Bitcoin is the most well-known cryptocurrency. Other cryptocurrencies include: Bitcoincash, Ripple, and Litecoin. There are hundreds of other, lesser-known, cryptocurrencies currently in use throughout the world.

In this guidance, we address the taxability of bitcoin related activities. Information in this guidance may be relevant for addressing other cryptocurrency business activities, depending on the facts in each case. However, please note that other forms of cryptocurrency may have different features that may lead to different tax results, and thus businesses should be aware that the Department will review other cryptocurrencies based on the facts applicable to those cryptocurrencies.

Examples included in this guidance identify a number of facts and then state a general conclusion; they should be used only as a general guide. The tax consequences of all situations must be determined after a review of all the facts and circumstances.

If a vendor receives payment in exchange for good or services in the form of bitcoin, is there a taxable transaction?

Yes. Bitcoin is treated as consideration for the purchase of goods or services.

What records should a seller accepting bitcoin keep?

Taxpayers are responsible for retaining appropriate documentation pursuant to *WAC 458-20-254* and *RCW 82.32.070*. Guidance on appropriate documentation for transactions involving bitcoin is discussed below.

Example of payment using bitcoin.

The examples below solely address situations where bitcoin is tendered in an amount equal to the amount invoiced for goods or services and the related retail sales tax. This guidance does not address situations where sellers accept payment in bitcoin that is greater or less than the amount invoiced for goods or services and the related retail sales tax. In these latter situations, taxpayers are encouraged to contact the Department for additional guidance.

Bitcoin is converted to US dollars at the time of sale

In cases where a seller immediately converts bitcoin received from a buyer to US dollars, tax is computed on the converted amount. Sellers must retain documentation indicating the time of sale, the value of the converted amount (sale), and documentation of the transaction. Suitable documentation may include:

- *Time of sale:* A dated record of the bitcoin transferred from the buyer to the seller;
- *Value of sale:* A dated record of the bitcoin conversion to US dollars by the seller; and
- *Transaction documentation:* A copy of the sales invoice issued from the seller to the buyer.

Example 2:

- **Facts:** Bill contracts with Anne to repair her vehicle. Bill provides Anne with an invoice for \$2,000, plus \$202 in retail sales tax. Anne pays Bill in the form of bitcoin. On the date of sale, January 2, 2019, Anne sends bitcoin in payment to Bill. ² On the same day, Bill converts the bitcoin to US dollars in an amount equal to the invoiced amount, including tax.

- **Results:**

The measure of the retail sales tax is \$2,000 and the retail sales tax is \$202. In this example, Bill should retain the following documentation:

- *Time of sale:* A dated record of the bitcoin transferred from Anne;
- *Value of sale:* A dated record of the bitcoin conversion; and,
- *Transaction documentation:* A copy of the invoice issued to Anne.

Note: *Bitcoin value would be determined in the same way for sales subject to the service and other activities B&O tax.*

Bitcoin is not converted to US dollars at the time of sale

In cases where a seller does not immediately convert bitcoin received from a buyer to US dollars, the measure of the tax is value of bitcoin, expressed in US dollars, as of the date of sale. This value may be determined via a reliable cryptocurrency pricing index. ³ Retail sales tax and retailing B&O tax is computed on this value. Sellers must retain documentation indicating the time of sale, the value of the bitcoin amount (sale), and documentation of the transaction. Suitable documentation may include:

- *Time of sale:* A dated record of the bitcoin transferred from the buyer to the seller;
- *Value of sale:* A dated record of bitcoin's value published on a reliable cryptocurrency composite index; and
- *Transaction documentation:* A copy of the sales invoice issued from the seller to the buyer.

Example 3:

- **Facts:** *Global Online Superstore (GOS)* is a large online retailer selling thousands of different products. *GOS* has recently configured its online shopping cart to accept customer payments in bitcoin. *GOS* uses sophisticated software that is able to convert customer charges from US dollars to bitcoin at the point of sale. The *GOS* shopping cart is able to determine the exchange rate of bitcoin to US dollars in real time. On December 15, 2018, Sally (customer) purchases a \$50 product on *GOS's* website. The invoice shows a total selling price of \$50 and separately stated retail sales tax of \$4.40. At this point, Sally selects bitcoin as her method of payment. *GOS's* shopping cart feature instantly updates the total charge in terms of bitcoin in an amount equal to the invoiced amount.
- **Result:**
The measure of the retail sales tax is \$50.00 and the retail sales tax is \$4.40. In this example, *GOS* should retain the following documentation:
 - *Time of sale:* A dated record of the bitcoin received from Sally;
 - *Value of sale:* A dated record of bitcoin's value; and
 - *Transaction documentation:* A copy of the sales invoice issued to Sally.

Note: *Bitcoin value would be determined in the same way for sales subject to the service and other activities B&O tax.*

Does the Department of Revenue accept bitcoin as payment for taxes?

No. Taxpayers must convert bitcoin to US dollars, prior to remitting payment to the Department of Revenue.

What is bitcoin mining and how is it taxed?

Bitcoin mining is the process of digitally adding transaction records to bitcoin's public ledger of historical transactions (blockchain). The blockchain serves to confirm bitcoin transactions to the rest of the bitcoin network. Miners receive bitcoin for engaging in this activity in the form of "transaction fees" and "block rewards."

In order to unlock "block rewards" within the network and obtain bitcoin, miners are first required to confirm transactions involving existing bitcoin (e.g., sales involving bitcoin). When confirming a transaction involving existing bitcoin, miners receive transaction fees for processing bitcoin transactions. Additionally, miners also receive "block rewards", i.e., mined bitcoin. Once the maximum number of bitcoin have been unlocked (21 million), "block rewards" will no longer be available to miners. The Department understands that transaction fees will be the only source of revenue at that point in time.

The block awards and transaction fees are gross income from activities subject to the service and other activities B&O tax classification because they fall into no other specific B&O tax classification. *RCW 82.04.290*.

The measure of the tax is determined by the value of the bitcoin at the time it is obtained by the miner; this is the case for transaction fees and block rewards. Miners are required to retain documentation of this value in accordance with *WAC 458-20-254* and *RCW 82.32.070*. Bitcoin miners must retain documentation indicating the date bitcoin is received and the value of the related gross income. Suitable documentation may include:

- *Date Bitcoin is received:* A dated record of the amount of bitcoin received by the miner, and
- *Value of gross income on the date received:* A dated record of bitcoin's value published on a reliable cryptocurrency pricing index.

How am I taxed if I purchase and sell bitcoin as an individual (i.e. non-business) or non-financial business investment?

A B&O tax deduction is provided for amounts derived from investments (*RCW 82.04.4281*). Generally, individuals (i.e. non-business) who buy and sell bitcoin as an instrument of investment are not subject to Washington taxes on their gains.

However, this deduction does not apply financial business entities. Financial businesses refers to security businesses (brokers, dealers), lending businesses, and banking businesses. *RCW 82.04.4281(3)*. See below.

For more information see our tax topics article on *Investments*.

How am I taxed if I purchase and sell bitcoin as a financial business investment?

Stockbrokers and security houses

Income from interest, commissions, trading, dividends, and other sources realized from bitcoin investments by stockbrokers and security houses are reportable as “gross income of the business”. *WAC 458-20-162*. The income is generally subject to B&O tax under the service and other activities classification. Stockbrokers and security houses cannot take a deduction for income derived from investments.

Banks and other financial institutions

Banking and lending businesses cannot take a deduction for income derived from investments. Income from gains on bitcoin investments are reportable as “gross income of the business”. *WAC 458-20-146*. The income is generally subject to B&O tax under the service and other activities classification.

For more information see *RCW 82.04.080(b)* and *RCW 82.04.4281*, and; our tax topics article on *Investments*

Questions

If you have questions about this guidance, please contact Brenton Madison at 360-534-1583.

Resources

- Tax Topics article on *Investments*.
- *WAC 458-20-146* – Banks and other financial institutions.
- *WAC 458-20-162* – Stockbrokers and security houses.
- *WAC 458-20-19402* – Single factor receipts apportionment—Generally.
- *WAC 458-20-19404* – Financial Institutions – Income Apportionment
- *RCW 82.04.080* – “Gross income of the business.”
- *RCW 82.04.090* – “Value proceeding or accruing.”
- *RCW 82.04.4281* – Deductions—Investments, dividends, interest on loans.

Footnotes

1	Merriam-Webster definition of 'cryptocurrency'.
2	Bitcoin are sent to and from digital wallets. Wallets allow individuals to transmit and convert bitcoin into other currencies, including US dollars.
3	An example of a cryptocurrency pricing index is the <i>WorldCoinIndex</i> (website). WorldCoinIndex is an online pricing index for hundreds of cryptocurrencies. The index tracks cryptocurrency values by computing their average (weighted) value across the world's cryptocurrency exchanges.