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Quiz clients closely on crypto 'or risk tax pitfalls'

TECHNOLOGY

Many fail to understand the compliance implications of trading and transacting digital assets, says crypto software specialist.

By Malavika Santhebennur•24 November 2022•5 minute read

Thoroughly quiz clients about their crypto holdings because many fail to grasp the tax implications of digital asset transactions, accountants are being told, and that could come back to bite.

Speaking ahead of his session at the Accountants Daily Strategy Day 2022 on the crypto crackdown, software provider CryptoTaxCalculator co-founder and CEO Shane Brunette said the onus was on accountants to ensure clients are declaring all of their activity because clients could be unclear about what constitutes a taxable activity.

They could believe, for example, that only cashing out back into your bank account is the point of tax.

"Clients might have been doing transactions in the crypto economy and not thinking that they are taxable events," Mr Brunette told Accountants Daily.

"So, it's not enough to just ask if the client has made any money in crypto. You've really got to ask if they have had any transactions in crypto whatsoever. If there's a 'yes' to that question, then you have to dig in a lot deeper.

"You can't really rely on the client themselves to come forward and say they've made or lost something in crypto and help them out with the tax. You actually have to proactively ask the question, 'have you done anything in crypto?'"

Even if the client signs off that everything is correct, it is the accountant's obligation to double check that everything is accurate, Mr Brunette insisted.

"You need to work with the client to make sure that there isn't any missing data and it's really best to be using software on the accounting side so that you can see the same view as the client. If there are any issues, the accountant needs to identify it and take action," he said.

At the [Accountants Daily Strategy Day 2022](), Mr Brunette and CryptoTaxCalculator product manager Matt Crofts will answer your burning questions on how crypto is being taxed in Australia, what the ATO is looking for, and how accountants can prepare their crypto-trading clients for tax time.

Once an accountant has a comprehensive view of their client's trading activity, they can use software tools to import that data and identify any inconsistencies, missing wallets, or exchanges, Mr Brunette said.

This should provide a view of the funds flowing into another account, which would enable the accountant to ask the client whether the wallet or exchange is theirs or a counterparty's and for more details around the nature of the transaction.

"There's actually a reconciliation process."

"It's not enough to just connect your bank feeds and cross your fingers and hope the numbers are correct."

Mr Crofts said clients may not be providing all the information to fulfil their tax obligations, including the cost basis.

"Accountants are commonly saying that when they get an individual tax return through their tax lodgment software, they see that the client has got some crypto but generally that's only coming off exchange reported data so it's not very reliable," Mr Crofts told Accountants Daily.

"That's really a big part of the problem. It might just say $2,000 in the pre-fill in the crypto but that may just be what they've got on the exchange. You need to see all the data moving, not just one. That's where a lot of accountants are just relying on that exchange report, which may have incorrect data in it, or it's not linked to other important data."

Alongside this, there's a misperception among some unsophisticated investors that the activity occurring in the decentralised economy is invisible to the ATO, and as such, they do not need to declare it because it is not taxable, but this is untrue, Mr Brunette pointed out.

"The blockchain data is an open public ledger and is immutable, and anyone can go in and have a look at the audit trail."

"It is all taxable so the accountant needs to ask the right questions to make sure that their full transaction history is there and the numbers add up. It's just traditional accounting. You need to be able to make clear that you know there's double entry accounting and that you can actually see the flow of the transaction as it moves from the purchase all the way to the sale and the bank records."

To hear more from Shane Brunette and Matt Crofts about how cryptocurrency is taxed in Australia and the strategies available to those navigating losses and volatility, come along to the Accountants Daily Strategy Day 2022.

It will be held on 29 November in Grand Hyatt Melbourne and 1 December at Parkroyal Parramatta, Sydney.

Click here to book your tickets and don’t miss out!

For more information, including agenda and speakers, click here.