

## This Month:

- Cryptocurrency Taxation
- Salaries Paid to Family Members

### Cryptocurrency Taxation

Cryptocurrency is a type of alternative currency, such as Bitcoin, but it is not considered money or currency (“legal tender”). It is a digital asset that works as a medium of exchange for goods and services between the parties who agree to use it. If you hold more than one type of cryptocurrency in a digital wallet, each type of cryptocurrency is treated as a separate digital asset and must be valued separately.

A person can acquire cryptocurrency either by receiving it as payment for goods or services, or purchasing it from an exchange, or by mining. We will assume for the remainder of this article, that the person has not engaged in mining activities.

The CRA treats cryptocurrency like a commodity for tax purposes and therefore it is subject to the same rules as barter transactions.

#### **Is it business income or capital gain?**

In some cases, the lines get blurred if certain cryptocurrency transactions are considered trading or investing. The following factors will be considered as to determine whether it will be investing, which generates a capital gain or loss, or trading which results in business income or losses:

- the frequency of transactions
- the period of ownership
- the taxpayer’s knowledge of cryptocurrency markets
- relationship to the taxpayer’s other work
- the amount of time spent analyzing these markets

#### **Keeping Books and Records**

If you acquire (by mining or otherwise) or dispose of cryptocurrency, you must keep records of your cryptocurrency transactions. This also applies to businesses that accept cryptocurrency as payment for goods and services.

Cryptocurrency exchanges have different standards for the kinds of records they keep and how long they keep them. If you use cryptocurrency exchanges, you should export information from these exchanges periodically to avoid losing the information necessary to report your transactions. You are responsible for keeping all required records and supporting documents for at least six years from the end of the last tax year they relate to.

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You should maintain the following records on your cryptocurrency transactions:

- the date of the transactions
- the receipts of purchase or transfer of cryptocurrency
- the value of the cryptocurrency in Canadian dollars at the time of the transaction
- the digital wallet records and cryptocurrency addresses
- a description of the transaction and the other party (even if it is just their cryptocurrency address)
- the exchange records
- accounting and legal costs
- the software costs related to managing your tax affairs.

### Canadian Securities Regulators state the following:

"Cryptocurrency is a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. Investors may be eager to get in on a new trend but should be wary of the considerable risks that often accompany these products."

## Salaries Paid to Family Members

When deciding as to whether a salary should be paid to a family member, or more specifically to one's spouse, numerous questions arise. On one side, there is the question of the risk involved that the salary may be unreasonable and having the expense being disallowed. On the other side, there is the benefit of lower tax brackets, RRSP contribution room and unused credits. In a situation where the spouse contributes nothing to the business but is paid a salary which, if paid to an unrelated employee, would have been much lower based on the work performed, the risk mentioned above increases. However, there are numerous functions that can be performed by family members away from the business premises which are easily overlooked. These functions are summarised below:

- Computer work and website maintenance,
- Banking,
- Answering the telephone and taking messages,
- Purchasing supplies,
- Delivery and pick-ups, and
- Promotional work.

In rendering government decisions to accept salaries paid to family members easier, numerous aspects should be considered such as:

- Having a written contract of employment between the corporation and a family member,
- Salaries commensurate with duties performed,
- The educational background of family members,
- Not being overly aggressive in paying salaries to family members,
- Keep copies of cancelled cheques, and
- If payment is made in cash to family members, have them sign receipts.

The family members' salaries would be reported on T4's (Relevés 1 for Quebec) as they normally would if paid to an unrelated employee.

