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Japan's Resolve on Taxing Cryptocurrency Could Fade in Future



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By [Sony Kassam](#)

Japan's strict tax laws on cryptocurrencies like bitcoin may not stay that way.

The government will likely loosen those rules as it begins to address treatments more similar to stocks, industry advisers told Bloomberg Tax. Relaxed tax rules would encourage growth for the cryptocurrency industry in Japan.

"The overall tax treatment of digital currencies in Japan should conceivably become more favorable in time, once precedents have successfully been set in other developed nations," said Martin King, a managing partner at Tyton Capital Advisors in Tokyo.

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And more growth in the industry would be notable considering how popular cryptocurrency already is in Japan.

Japan accounts for nearly 60 percent of the global transaction volume for bitcoin, according to Japan's [Financial Services Agency](#). The global 24-hour transaction volume of bitcoin was about \$7 billion as of early July 24.

Since March, 3.5 million users have traded cryptocurrencies as assets, the FSA reported.

Where Are Investors Treated Best?

Investors in Japan have to declare their profits from cryptocurrency transactions in filings to the National Tax Agency and face tax rates ranging from 15 percent to 55 percent on the profits—"an obstacle for users in Japan," said Takashi Sato, a partner at KPMG Japan.

Investors with earnings of more than 40 million yen (\$359,309) are taxed with a 45 percent national tax and a 10 percent local tax. That rate has prompted some investors to relocate to countries with relaxed tax rules.

Cryptocurrencies have created many new high-net-worth individuals, King said, and so "tax domicile inevitably becomes a consideration." "Wealthy people will always migrate to the country that treats them the best," he said.

The NTA's "tight grip serves to monetise the populace of individual investors who have made meteoric gains over the recent years," King said in an email July 11.

"From individual investors to accountants, the ubiquitous view of the current tax framework for cryptocurrencies in Japan is that the system is unfair," King said.

Current Tax Rules

In 2017, Japan ruled that capital gains from cryptocurrency transactions are "miscellaneous income" with "general taxation." This means gains from cryptocurrencies are part of ordinary income and are treated differently than gains from stocks or foreign exchange trading.

The government's cryptocurrency tax stance "can only be described as punitive," King said, because "unlike gains made through stocks or real estate, losses in other assets cannot be used or carried to offset and reduce the tax liability for gains."

Conversely, a flat tax rate of 20 percent is applied to all income levels for gains from stocks or FX, which are taxed separately from ordinary income and are treated as miscellaneous income but with "separate declared taxation." Taxpayers in Japan also have to pay a temporary 2.1 percent surtax on their national income tax until 2037, Sato said, to fund reconstruction efforts after the 2011 earthquake, making the total tax rates 15.105 to 55.945 percent.

Frustrated Investors

The national assembly in June mulled applying tax treatment of stocks and FX to cryptocurrency transactions, said Kenji Yanagisawa, founder and partner at Yanagisawa and Co. in Tokyo.

And digital currency associations such as the Japan Virtual Currency Exchange Association, the Japan Blockchain Association, and the Japanese Cryptocurrency Business Association have discussed fairer alternatives, he said.

Cryptocurrency investors are frustrated that buying something with their tokens triggers a capital gains tax,

Yanagisawa said in an email July 17. They're also frustrated "with the statutory calculation method because it is very, very complicated and impracticable."

The two key takeaways from conversations about the tax system are that a 20 percent flat tax rate would be fairer, and transactions should be non-taxable until gains are exchanged for fiat currencies, Yanagisawa said. That means exchanging some digital currencies for other digital currencies like bitcoin and monacoin—Japan's native digital currency—should be non-taxable.

Building a Better Future

"As the regulations related to gain from cryptocurrencies is quite new and the environment around cryptocurrencies is rapidly growing and changing, we expect that the tax authorities will release new regulations or update current regulations in the future," Sato said in an email July 19. "However, there are no further details available."

Practitioners said rule changes could take years. "I hope they change inefficient rules, and build a better future," Yanagisawa said.

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