



2 August 2024

Future of Money
Reserve Bank of New Zealand
2 The Terrace
Wellington 6012

By email: futureofmoney@rbnz.govt.nz

Dear Sir / Madam

Digital cash in New Zealand: Consultation Paper

Thank you for the opportunity to submit on the Consultation Paper on digital cash in New Zealand.

In summary, we support considering the introduction of digital cash in New Zealand. The process of documenting and carefully working through the issues will be vital prior to any introduction.

It will be critical to ensure that the taxation aspects are transparent and easily understood prior to implementation.

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 128,000 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Our New Zealand Tax Team advocates in the best public interest.

More information about CA ANZ is included in Appendix One

Background

The Reserve Bank of New Zealand (RBNZ) is undertaking a multi-year project to investigate the use of digital cash in New Zealand.

We have previously submitted to the Finance and Expenditure Committee investigation into the use of cryptocurrency and digital cash. In summary, that submission recommended that the Government introduce some specific tax rules to make the taxation of cryptocurrency more easily understood and compliance easier. This has to some extent been achieved; however, we continue to believe that the best solution would be to introduce a comprehensive framework.

In our submission, we refer to the potential cryptocurrency as a Central Bank Issued Cryptocurrency (CBIC).

General comments

CA ANZ is supportive of RBNZ's work to consider what shape digital cash could take if it were to be introduced in New Zealand. Noting that no other advanced economy central bank has currently issued a digital form of money to the public, CA ANZ supports an approach that allows New Zealand to be prepared to be a 'fast follower' at the appropriate time.

It is important to understand the specific policy problem the introduction of digital currency would address, and to consider whether that problem could be resolved more efficiently by other means. For example, whether it might be used in emergencies. For it to be a replacement for cash in that situation it would need to be accepted in all places that currently accept cash. This would require additional infrastructure, especially if it were to be available for offline use, including requiring power to be available.

Another example would be faster payment times, which might create efficiencies within the economy as a whole; again, provided the necessary infrastructure was in place.

There is value in considering digital cash as part of a broader strategy for digital infrastructure, money, payment systems, and to increase New Zealanders' digital skills and financial literacy. CA ANZ is strongly supportive of the introduction of compulsory financial education at primary and secondary school through public-private partnerships.

It is also worth noting that some of the benefits considered within the consultation document are based on an assessment of the current state of New Zealand's financial system, and that many of these processes are under development.

Taxation comments

Previous work done

We have previously submitted on the taxation aspects of cryptocurrency generally. In response to our and other submissions, Inland Revenue officials have made changes to the Revenue Acts to define and clarify the treatment of cryptocurrency. This has been useful. However, if a decision is made to proceed with a CBIC, further amendments should be considered. We outline the issues below.

Current definition

The Income Tax Act 2007 now includes definitions of cryptoasset and cryptocurrency, which are as follows:

cryptoasset means a digital representation of value that exists in—

(a) a database that is secured cryptographically and contains ledgers, recording transactions and contracts involving digital representations of value, that are maintained in decentralised form and shared across different locations and persons; or

(b) another application of the same technology performing an equivalent function

cryptocurrency means a cryptoasset that is not a non-fungible token

A CBIC would fall within both of these definitions, unless explicitly excluded.

The Income Tax Act also includes a definition of “money”. However, the definition applies only for sections GB 45, 46 and 48 and the definition of “security payment”.

money,—

(a) in section GB 48 (Defined terms for sections GB 45 and GB 46), in the financial arrangements rules, and in the definition of **security payment**, includes—

(i) money's worth, whether or not convertible into money:

(ii) the right to money, including the deferral or cancellation of some or all of an obligation to pay money:

Although the definition of “money” does include “money’s worth”, it applies only in specific place in the Act and not in the tax rules more generally. The above definition would not apply to most instances when cryptocurrency is being used and not in everyday business transactions where it is treated as a substitute for cash.

A few cryptoassets will qualify as “financial arrangements” (in essence, a debt instrument); however, the rest fall within the definitions of general assets for income tax purposes.

Absent the two narrow situations above, cryptoassets will be treated as assets, rather than currency for tax purposes. This means that the tax consequences are different from what it would be if taxpayers were using cash to pay for their goods and services. This would need to be addressed if the RBNZ digital cash is to be used as a cash alternative as indicated in the discussion paper.

Practical issues

Most of the practical tax issues with cryptocurrencies arise for one of two reasons, being either:

- their volatility; or
- the ease with which they may be acquired or exchanged.

Inland Revenue has long stated that cryptocurrency is often held for resale or trade, which means any gains on disposal are often taxable. “Disposal” of a cryptoasset has a wide definition so includes exchanging it for another cryptoasset, or using it to purchase goods or services.

A Regulatory Impact Statement¹ made by Inland Revenue in May of this year, states:

“In almost all cases, the disposal of cryptoassets is taxable in New Zealand. Disposals include selling cryptoassets for money, exchanging one cryptoasset for another type of cryptoasset and using cryptoassets to pay for goods or services.”

¹ <https://www.taxpolicy.ird.govt.nz/-/media/project/ir/tp/publications/2024/2024-ris-crypto-asset-reporting-framework.pdf?modified=20240606040301&modified=20240606040301>

Neither of these issues arise to the same extent with a CBIC. In theory, any disposal of a cryptoasset (such as when they are used to make a purchase) should result in a taxable event. However, in the case of a CBIC they will not fall in value as they will be linked to the New Zealand dollar – thus, even though technically there is a taxing event there will not be tax to pay. Nevertheless the taxable event could be avoided if the CBIC were deemed to be currency or cash.

Inconsistency of treatment

Despite the above, until government officials are able to implement a more comprehensive framework, issues with definitions and inconsistencies between different parts of the Revenue Acts will continue to arise.

One particular inconsistency is in the classification of cryptoassets as a good or a service. Inland Revenue has determined that cryptocurrency will be “goods” for the purposes of section RD 40 of the Income Tax Act (Fringe Benefit Tax (FBT) rules), but will not be “goods” for the rest of the FBT rules, nor for the GST rules.

These distinctions are not intuitive and will make compliance with tax rules difficult for those who are not tax experts.

Employee remuneration in cryptocurrency

Inland Revenue has issued a helpful ruling² stating that payments to employees in cryptocurrency may be subject to PAYE in the same way as other salary and wage payments. However, the ruling applies only if:

The arrangement is the payment of remuneration to an employee in cryptoassets in circumstances where the cryptoasset payments (whether denominated in NZD or in cryptoassets):

- are for services performed by the employee under an employment agreement;
- are for a fixed amount; and
- are part of the employee's remuneration package.

In addition, as part of the ruling, Inland Revenue notes that:

² <https://www.taxtechnical.ird.govt.nz/-/media/project/ir/tt/pdfs/rulings/public/2023/br-pub-23-04.pdf?modified=20230515033252&modified=20230515033252>

This Ruling applies only to salary and wage earners, not self-employed taxpayers; and where the cryptoassets being paid:

- are not subject to a “lock-up” period;
- can be converted directly into a fiat currency (on an exchange);

and either:

- o a significant purpose of the cryptoasset is to function like a currency; or
- o the value of the cryptoasset is pegged to one or more fiat currencies.

This Ruling does not apply where the cryptoasset provided is a “share” for income tax purposes and is received under an “employee share scheme” as defined in s CE 7.

It is likely that, with the introduction of a CBIC, employee remuneration in cryptocurrency will become more common as public acceptance of cryptoassets increases. The CBIC itself should satisfy the above requirements regarding the currency’s attributes and function. However, the additional conditions that must be satisfied in order to apply the above ruling highlight that employee remuneration in cryptocurrency is not always treated in the same way as payment in fiat currency. In addition, the ruling applies only to employees and not independent contractors. No guidance is given as to what should occur if these criteria are not met. Overall this will make compliance difficult.

If a CBIC is introduced it is likely that cryptocurrency – and, in particular, digital cash – will be used more widely in New Zealand. It is important that the tax rules do not hinder voluntary compliance. In our view the goal for a CBIC should be to make the tax treatment as similar to transactions using fiat currency as possible.

GST considerations

The GST treatment is more straightforward. Cryptoassets have already been excluded from GST. In addition, any central bank issued cryptocurrency will be a “currency” for GST purposes and treated as such. Therefore, payment for goods and services by means of a CBIC should be treated the same as payment in fiat currency.

Way forward

In our view, it would be best to implement a comprehensive framework for the taxation of cryptoassets which allows them to be treated in the same way as other assets of a similar nature.

In our view, the best approach for tax purposes would be to treat:

- Cryptocurrencies with the characteristics of equity, in the same manner as equities;
- Cryptocurrencies with the characteristics of debt, in the same manner as debt and debt instruments; and
- Cryptocurrencies with the characteristics of currencies (such as a CBIC), in the same manner as currency.

This would solve the issues we have outlined above because the CBIC would be treated in the same manner as cash.

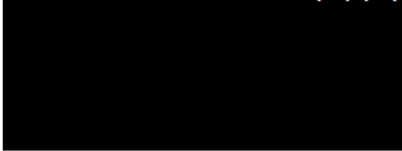
In the absence of such a framework, it will be important to focus on amending the tax legislation (on an issue by issue basis) so that transactions undertaken using the CBIC have the same tax outcomes as if they were made using fiat currency.

Other aspects outside of the tax treatment will need to be considered for a CBIC to be considered as a physical replacement for cash.

We would be happy to discuss our submission with you. Please contact Jolayne Trim.

Yours faithfully

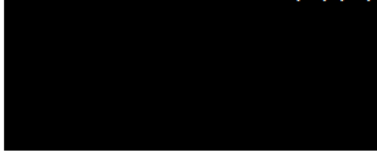
Redacted under 9(2)(a)



John Cuthbertson FCA

NZ Tax & Financial Services Leader

Redacted under 9(2)(a)



Jolayne Trim CA

Senior Tax Advocate

Appendix One

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 139,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.