What are the friendliest jurisdictions, from the tax perspective, for crypto holders at the moment?

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Dear Reader,

This article addresses tax friendly jurisdictions for *individual* crypto holders. Although there are states (e.g., Singapore and Switzerland) where crypto *businesses* (registered entities) may find beneficial tax treatment, corporate tax matters applicable to such businesses are not the subject matter of this article.
Please consider that the list of the jurisdictions below is compiled on an arbitrary basis. The list itself should not, in any case, be perceived as an endorsement or rating. Each jurisdiction has its advantages and drawbacks. These should be analysed on a case-by-case basis in light of specific circumstances including tax residency status, usual course of business, habitable presence, sources of income, and its nature (e.g., dividends, rental income, business income).
Also, when we talk about taxation of individual crypto holders in this article, we mean taxation of individuals who are *tax residents* of the respective jurisdictions. In this regard, you might need to become a tax resident of the respective jurisdiction to enjoy its tax benefits as well as to stop being considered a tax resident of other jurisdictions (including a home one).

1. UNITED ARAB EMIRATES (UAE)

The UAE is considered a world financial center attracting capital from different corners of the world, not least because of its favorable zero-tax rates applicable to individual income.

- **Personal Income Taxes**

The UAE is a federal state which is divided into seven emirates. Taxation may be introduced at both the federal and emirate level, with each emirate having a certain degree of autonomy. However, the key feature of this jurisdiction is that there are *no* federal and emirate-level taxes levied on income or capital gains that individuals generate in their private capacity.
From a practical standpoint, it means that buying, holding, and transferring crypto between your wallets does not give rise to any tax implications in the UAE. Neither, for that matter, does redeeming crypto assets for fiat currencies .
Indeed, the popular emirates (such as Dubai) have commenced – starting from 2022 – introducing a legal framework that should govern crypto and virtual assets. Although such a framework might affect the crypto industry, the changes will influence only those who provide services related to crypto and not affect the favorable individual tax treatment.
To sum up, the UAE might be a nice option for those who regularly trade/exchange crypto or for long term crypto investors.

- **Tax Reporting**

Given there are no personal income and capital gains taxes, individuals are not required to keep records, file tax returns, or report their crypto transactions to the local tax authorities.

2. UNITED KINGDOM (UK)

In the UK, there is no separate crypto tax levied on crypto holders.
Buying (only for fiat currency), holding, and transferring crypto between your wallets are tax-exempt in the UK. Despite this, the UK tax authorities (HM Revenue & Customs, HMRC) consider that some crypto related income that an individual receives are subject to conventional UK tax rules.

- **Personal Income Tax**

In the UK, personal income tax rates vary from 20% to 45% and depend on the total amount of taxable income received during the year. The more income earned, the higher the taxes paid. While initially seeming unattractive from the tax perspective, further considerations may be warranted.
In its crypto manual, the HMRC specifies that crypto-related income is subject to personal income tax only in limited cases – for instance when the individual is engaged in mining, staking, lending, or receiving airdrops or employment earnings in crypto.
Also, personal income tax implications may arise if the individual's activity amounts to financial trade. Although HMRC notes that trading crypto on a regular basis may potentially give rise to UK personal income tax implications, they admit that it happens only in rare circumstances.

- **Capital Gains Tax**

Capital gains may arise if you sell crypto for fiat currency or exchange one crypto asset for another (e.g., Bitcoin for Ethereum). The exchange of stablecoins for crypto or other stablecoins has the same tax implications.
For UK tax purposes, capital gains are on any profit gained (including any transaction costs incurred). If you carry out a crypto-for-crypto swap, the market value of the exchanged asset at the time of swap is what matters, not the selling price.
The UK does allow for a deduction of GBP 12 300 as a *capital gains tax-free allowance* as well as any previously incurred losses from that sum. This may seem complicated, so let us break it down:
You bought crypto assets for GBP 2 000 and incurred transaction fee costs in the amount of GPB 300. Your total costs are GBP 2 300. You then sell those assets for GBP 13 600. To determine taxable gains, you should deduct the total costs (GBP 2 300) together with a tax-free allowance (GBP 12 300) from the selling price (GBP 13 600). As a result, you make a loss (negative GBP 1 000) instead of a profit. Thus, you should pay no capital gains tax. And if further disposal of crypto results in gains, you may even carry forward those losses (GBP 1 000) and again reduce taxable gains.
Once you receive taxable gains, you should determine the applicable tax rate. Unlike Germany (see below), the UK does not differentiate between short-term and long-term gains. Consequently, any gains are subject to capital gains tax.
The applicable tax rate depends on whether you are a basic-rate or higher-rate taxpayer. Basic-rate taxpayer capital gains are taxed at 10%, while higher-rate taxpayer are 20%. For these purposes, you are considered a basic-rate taxpayer if your total annual income[1] is less than GBP 50 270. Otherwise, you will be treated as a higher-rate taxpayer.

- **Tax Reporting**

In addition to tax matters, records of crypto-related transactions need to be kept as the basis for tax return filings. In the UK, the reporting period is a year, commencing on 06 April and ending the following 05 April. Individuals should file their tax returns once a year, with a filing deadline of 31 October.

[1] The total annual income is your overall taxable income (e.g., dividends, salary, rental income) plus capital gains which you receive during the year

3. GERMANY

In Germany, there are strict and unambiguous tax guidelines and policies. As such, tax obligations for individuals generating crypto income are clear. The relevant regulatory infrastructure originates from local tax authorities and cover almost all aspects of the crypto-related activities, namely holding, mining, trading crypto, etc.

There are no tax implications for merely buying and holding crypto or moving it between wallets. However, selling crypto and receiving gains may result in capital gains potentially triggering income tax obligations.

Given the German tax authorities' position, the gains which you realize from the sale of crypto should not be subject to German income tax if such gains (i) fall under a EUR 600 exemption or (ii) are treated as long-term gains.

- **EUR 600 Exemption**

Taxes are not due if your gains do not exceed the EUR 600 tax-free cap. So, if you buy crypto for EUR 1 000 and then sell it for EUR 1 400, your gain is EUR 400. Since it is under the EUR 600 threshold, there is no tax liability.

- **Long-Term Gain Relief**

Treatment of capital gains as a short-term or long-term depends on ultimate holding period which the crypto is held. If the ultimate holding period is less than one year, your capital gains are considered short-term and vice versa.

More specifically, if you buy a crypto asset in June and sell it in August of the same year, your gain is short-term and is subject to the German income tax unless the EUR 600 exemption applies.

If there is a tax, it is subject to the German personal income tax at a rate which varies from 0% to 45%[2], plus the solidarity tax (surcharge) which is capped at 5.5% of income tax.

Alternatively, you may hold crypto long-term (i.e. for a year or more) and then sell it. Under such circumstances, gains should be exempted from taxation irrespective of the amount of the capital gain. Additionally irrelevant is the form of the asset obtained in exchange for crypto. Fiat currencies, stablecoins, or virtual currencies are treated similarly under German law. Thus, the key to minimizing German tax exposure lies solely in the holding period of the asset.

Additional exemptions apply to crypto received as a gift from a relative. Such gifts potentially may be exempted up to 500 000 EUR.

- **Tax Reporting**

Germany does not significantly differ from the UK. Detailed records must be kept of cryptocurrency transactions for five years and annual tax returns filed.

[2] Germany has a progressive tax system in terms of personal income tax. The applicable tax rate may depend on the amount of your total taxable income, your marital status and other conditions

4. PORTUGAL

Portugal does not provide a special tax treatment for crypto holders; however some investors may be exempt from local capital gains taxes.

- **Portuguese Tax and Customs Authority's Position**

In 2016, the Portuguese Tax and Customs Authority issued a tax ruling clarifying the taxation of capital gains that individuals derive from the sale of their crypto.

In general, no tax implications arise if you receive capital gains from selling crypto. Nor does it matter in which form you generate those gains – whether it is fiat currency (e.g., EUR or USD) or another crypto asset.

There is, however, one caveat: PTCA specified that if an individual earns capital gains regularly, it may be considered as professional income, which is subject to a tax rate varying from 14,5% to 48%.

Thus, the key issue is whether the individual can be characterized as a professional trader or not. And unfortunately, there is no clear-cut means of delineation.

To determine whether an individual´s conduct is sufficient to qualify as "professional activity", tax officials in Portugal consider the following:

(1) The frequency of the activity (sale and purchase);
(2) the level of the dependency the individual has to the income from the transactions;
(3) whether the individual has a dedicated space, location or office from which the trades are carried out.

None of the above is, in itself, decisive. Instead all are considered jointly. Individuals are evaluated on a case-by-case basis. Those seeking clarity may turn to PTCA for advance tax rulings. Said rulings usually provide answers to the uncertain matters. The issued ruling is binding so the individual may rely on its outcome in the following four years.

- **Non-Habitual Resident (NHR) Scheme**

For those deemed professional investors, there remains a way in which tax obligations may yet be reduced, e.g., the NHR Scheme.

The NHR Scheme is a Portuguese tax benefits regime specially designed to attract foreigners to Portugal. It enables eligible individuals[3] to fully exempt qualified items from Portuguese taxes. To apply, the income should be from non-Portuguese sources and fall under one of the following categories: dividends, capital gains, interest, rental income, and self-employment and professional income derived from high value-added service activities of a scientific, artistic, or technical nature

While the NHR Scheme does not grant a direct tax exemption for capital gains earned in Portugal, the benefits from the NHR Scheme can be accessed from a properly structured crypto income flow.

- **Tax Reporting**

If you decide to link your crypto activity to Portugal, you should be aware of the tax reporting requirements. Individuals should submit their tax returns on an annually.

[3] You will be eligible for the NHR Scheme if the following criteria are met simultaneously:

(1) you are deemed a tax resident of Portugal in a certain year (to this end, you should EITHER stay in Portugal for more than 183 days in any 12-month period beginning or ending in the year in question OR have a house in such conditions indicating that you are intended to maintain and occupy it as a habitual residence);
(2) you have not been a tax resident of Portugal in the previous 5 years prior to applying for the NHR Scheme;
(3) you have a valid visa or EU/EEA Citizen Residency Certificate (if applicable);
(4) you successfully pass the application process.

5. SWITZERLAND

There is no special tax regulation applying to crypto in Switzerland. However, Swiss tax authorities (Swiss Federal Tax Administration, FTA) have issued guidelines (official position) on the taxation of crypto.
The FTA treat the main cryptocurrencies (e.g., Bitcoin or Ethereum) as payment tokens, i.e., a means of payment whose issuer does not have any obligations to the holders (e.g., to distribute funds or provide services). Consequently, there are no Swiss tax implications if you just buy crypto for fiat currency, transfer it between wallets or even exchange it for another. Although holding crypto may trigger the Swiss wealth tax implications (see below), the tax burden is quite light (up to 1%).
However, you may still be subject to the Swiss personal income tax, capital gains tax, or wealth tax, depending on the type of transaction in which your crypto is involved (e.g., payment for the provided services or realized profit from sale).

- **Personal Income Tax**

The tax rate applicable to your crypto income is progressive.
Additionally, personal income tax is introduced at the Swiss federal (from 0% to 11,5%) and cantonal plus municipal (from 7,5% to 41,5%) level. Consequently, your crypto income which is subject to personal income tax may be taxed twice or even thrice, but the final applicable tax rate is dependent on the place where you live.
However, only limited crypto-related transactions may trigger the obligation to pay personal income tax in Switzerland. The latter will be levied on your free-of-charge crypto, salary (fees) in crypto, airdrops, and income from mining and staking.
As you see, the sale of crypto is not mentioned in the above list. However, profit which you realize from such a sale will be subject to the Swiss capital gains tax. And tax treatment of capital gains may be much more preferential for individuals.

- **Capital Gains Tax**

Capital gains generally arise if there is a positive difference between the selling price of your crypto and the costs which you incurred to buy it.
At the federal level, the applicable capital gains tax rate may vary from 0% to 11,5% and depends on the total amount of taxable income earned during the year. The cantons may introduce their own capital gains taxes, too.
However, the foregoing tax implications affect only "professional investors". Thus, your capital gains arising from the disposal of crypto will be tax-free in Switzerland if you are considered a "private investor".
It is a matter of fact whether you have the status of a professional or private investor. Given the FTA's criteria which they apply to the capital assets holders (e.g., stocks or bonds), a crypto holder may be considered a private investor if:

(1) he holds crypto for at least 6 months before its disposal;
(2) his capital gains are less than 50% of his annual net income;
(3) his total volume of the crypto-related transactions does not exceed 5 times the value of his investment portfolio at the beginning of the year;
(4) he invests only his own money (not loans) in crypto;
(5) he does not use derivatives (e.g., options) unless he hedges the risks.

If you positively answer all the foregoing criteria, you are a private investor, and no capital gains should arise when you sell crypto. So, zero-tax treatment is possible for crypto holders in Switzerland provided that the foregoing criteria are met.

However, we recommend that you double-check your investor status because local authorities – in cantons and municipalities – may freely implement these criteria according to their standards.

- **Wealth Tax**

Given the capital nature of crypto under Swiss law, crypto holders may be required to pay the wealth tax as well.
In Switzerland, there is no wealth tax applicable to individuals at the federal level.The cantons are free to tax crypto via their wealth taxes. As a result, your wealth tax burden will depend on the place you live in Switzerland and your annual taxable income. In no instance will the local wealth tax rates exceed 1%. Additionally, cantons and municipalities may grant a tax allowance (a non-taxable income threshold) reducing your tax burden. The sum of such an allowance also varies by canton (municipality) but often is CHF 100 000.
The wealth tax is levied on the market value of crypto declared at the end of the year. To this end, you should refer to the FTA's data covering the market value of most cryptocurrencies (e.g., Bitcoin, Bitcoin Cash, Ether, Litecoin and Ripple). If the FTA does not provide the respective data, you may use the information from the platform where your crypto is held or traded as of 31 December.

- **Tax Reporting**

Like in many other jurisdictions, individuals should duly keep their records relating to crypto. Based on those records, tax returns should be created and submitted to the FTA.
For individuals, the reporting period is a calendar year.

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The information presented in this e-publication is of a general nature. In practice, it is necessary to assess the applicability of the given information to a specific case. We therefore recommend consulting your specific situation with a tax advisor or an attorney.

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