



Australian Government

Australian Government response to the
Senate Economics References Committee
Report:

**Digital currency—game changer
or bit player**

May 2016

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Senate Economics References Committee: Digital Currency

Introduction

The Australian Government is committed to fostering innovation in Australian businesses – and the FinTech industry is integral to this goal. Digital currencies and the technologies that underpin them have potential applications in many areas of the Australian economy.

The Government's FinTech statement – *Backing Australian FinTech* – released on 21 March 2016, sets out a clear strategy and agenda for FinTech, based on the issues identified by the sector. The statement identifies priorities for the development of a strong and competitive FinTech industry. This includes the Government's commitment to address the 'double taxation' of digital currencies under the goods and services tax (GST).

The FinTech statement builds on the announcement in February 2016 by the Prime Minister, the Hon Malcolm Turnbull MP, and the Treasurer, the Hon Scott Morrison MP, of the establishment of a FinTech Advisory Group to advise the Treasurer on issues important to Australia's FinTech industry. The FinTech Advisory Group will identify areas of potential reform, including in relation to digital currencies, and ensure that the specific priorities of industry are considered in the implementation of government policies.

As reflected in the responses to the recommendations of the Committee's report, the Government intends to engage the FinTech Advisory Group in the development and implementation of its responses.

Senate Economics References Committee: Digital Currency

Government Response

Recommendation 1

The committee is of the view that digital currency should be treated as money for the purposes of the goods and services tax. As such, the committee recommends that the government consults with the states and territories to consider amending the definition of money in the *A New Tax System (Goods and Services Tax) Act 1999* and including digital currency in the definition of financial supply in *A New Tax System (Goods and Services Tax) Regulations 1999*.

The Government agrees that consumers should not be subject to the GST twice when using digital currency to purchase goods or services.

For this reason, the Government has already committed, through its *Backing Australian FinTech* statement released on 21 March 2016, to address the 'double taxation' of digital currencies. The Government is working with the FinTech Advisory Group on options to reform the current GST treatment of digital currencies and has released a consultation paper for public consideration as part of the 2016-17 Budget. Any change to the GST treatment of digital currencies is subject to formal state and territory agreement.

Recommendation 2

The committee recommends that further examination of appropriate tax treatment of digital currencies should be included in the taxation white paper process, with particular regard to income tax and fringe benefits tax.

The Government notes this recommendation.

In December 2014, the Australian Taxation Office (ATO) released a series of rulings on the income tax, fringe benefits tax and capital gains tax treatments of Bitcoin. These rulings provided clarity to taxpayers on the tax treatment of Bitcoin, and guidance on how other digital currencies may be treated, to the extent they share similar characteristics to Bitcoin. The ATO and the Government continue to monitor developments in the digital currency industry in order to consider the most appropriate tax treatment of digital currencies.

Recommendation 3

The committee recommends that the Australian Government consider establishing a Digital Economy Taskforce to gather further information on the uses, opportunities and risks associated with digital currencies. This will enable regulators, such as the Reserve Bank of Australia and ASIC, to monitor and determine if and when it may be appropriate to regulate certain digital currency businesses. In the meantime, the committee supports ADCCA's continued development of a self-regulation model, in consultation with government agencies.

The Government agrees with this recommendation.

The Government has announced that as part of its response to the Financial System Inquiry, graduated payments system regulation will be implemented to support innovation in the industry. The Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Reserve Bank of Australia (RBA) and the Treasury have begun preparatory work to review the framework for payments system regulation and to develop clear guidance. One part of this work is ensuring that the RBA and ASIC have the powers to regulate new payment systems – including digital currencies – as they emerge through innovation.

The Government considers the recently established FinTech Advisory Group to be the appropriate mechanism to progress the work proposed for the recommended Digital Economy Taskforce. The FinTech Advisory Group – which includes representation from FinTech firms, digital currency businesses, venture capital investors, legal advisers and incumbent financial services firms – is well placed to gather further information on the uses, opportunities and risks associated with digital currencies.

The Government supports the work of the Australian Digital Currency Commerce Association (ADCCA) to continue to improve industry standards for digital currency businesses, including via the development of a self-regulatory model.

Recommendation 4

The committee recommends that the statutory review considers applying AML/CTF regulations to digital currency exchanges.

The Government agrees with this recommendation.

On 4 December 2013, the Minister for Justice announced the commencement of a review of Australia's anti-money laundering and counter-terrorism financing (AML/CTF) regime, as required by section 251 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).

The report of the review is expected to be released shortly.

The statutory review has provided the Government with an opportunity to critically examine the operation and scope of Australia's AML/CTF regime and consider issues raised by regulated businesses, law enforcement, and other government agencies. The review is considering a range of measures to support the development of the FinTech industry, including whether Australia's existing AML/CTF regime should be extended to include convertible digital currency exchanges and how to make the obligations under the AML/CTF regime technology neutral.

Internationally, it is considered that the extension of AML/CTF regulation to include convertible digital currency exchanges would encourage innovation and investment by ensuring service providers have greater certainty and security in their dealings with digital currency businesses, while reducing the money laundering and terrorism financing risks associated with this emerging technology. This approach has already been taken by a number of jurisdictions including the United Kingdom and Canada, and is in line with the recently published *Guidance for a Risk-Based Approach to Virtual Currencies* issued by the Financial Action Task Force, the international standard-setting body for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Australia's review is considering these and alternative approaches to addressing the money laundering and terrorism financing risks posed by digital currencies.

The Government will also consider guidance from the FinTech Advisory Group as part of broader considerations around the AML/CTF regulation of digital currencies.

