The impact of new technologies on taxation: crypto and blockchain

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The European Parliament adopted by 566 votes to 7, with 47 abstentions, a resolution on the impact of new technologies on taxation: crypto and blockchain.

Parliament believes that new technological solutions, such as blockchain, can be used by tax administrations to better serve the needs of taxpayers, to exchange information between jurisdictions, as well as to deter corruption, but that these technologies can also be misused as a channel for illicit activities, with the criminal intent of avoiding taxes. The increased visibility of blockchain transactions could facilitate the efforts of tax administrations to combat tax evasion.

Potential of new technologies such as blockchain

The resolution stressed that adapting the IT capabilities of tax authorities with the help of new emerging technologies, such as distributed ledger technologies like blockchain or artificial intelligence, should help foster intelligent tax and administrative procedures, facilitate compliance with tax obligations by citizens and businesses, and improve the traceability and identification of taxable transactions and ownership of tangible and intangible assets in a globalised environment where cross-border transactions are increasing.

Emerging technologies such as distributed ledger technology and blockchain, through their unique features, such as **traceability** and their ability to store immutable and reliable data, and thus to protect the integrity of such data, can better serve the needs of taxpayers, discourage corrupt practices, empower tax administrations and fight tax evasion and fraud.

However, Members pointed out that the use of blockchain, artificial intelligence (AI) and other digital tools by tax administrations has its advantages but also presents **risks, particularly in terms of data quality**, which must be properly mitigated, especially to prevent privacy violations and biased and discriminatory treatment of taxpayers.

The resolution highlighted the need to identify the best ways of using technology to enhance the analytical capacity of tax administrations, to standardise data to facilitate compliance with tax obligations by SMEs and taxpayers (e.g. through common reporting standards) and to ensure that taxation is more in line with the business environment in the digital age, while ensuring a high level of data protection.

The Commission is invited to:

- assess the ways in which different Member States tax crypto-assets and the different national policies regarding the fight against tax fraud and tax evasion in the field of crypto-assets;

- consider existing digital solutions in Member States and assess the possibility of integrating blockchain-based solutions on information exchange platforms to promote auditing and real-time information exchange;

- consider the creation of a new **platform for training and sharing of best practices** between national tax authorities in the field of combating tax evasion and avoidance in the digital economy, and in particular in the context of the use of crypto-assets;

- continue to assess the operational impact and tax governance aspects of blockchain technology and other distributed ledgers, including in the context of the Fiscalis programme.

Tax issues related to crypto-assets

Members believe that crypto-assets should be subject to **fair, transparent and effective taxation**, to ensure fair competition and a level playing field between the tax treatment of financial assets and products and between financial service providers. They called on the authorities to consider a simplified tax treatment for small operators and support the creation of an innovation-friendly environment in the Digital Single Market for entrepreneurs, SMEs and start-ups.

The resolution highlighted the need to:

- **adapt the concept of permanent establishment**, namely with a clear definition of virtual permanent establishment, in line with international standards, as digital economy operators may carry out significant business activities in a Member State without establishing a physical presence there;

- have a **clear and broadly accepted definition** of crypto-assets for tax purposes;

- find a **coherent definition of the taxable event** to ensure an adequate level of taxation, while avoiding instances of double taxation.

Due to the dynamics of the crypto-asset markets, Members believe that there is an urgent need for rules on the choice of the type of taxation to be applied, on the definition of the taxable event, on the time and place where a taxable event occurs, and on its valuation.

The Commission is invited to consider the issue of crypto-assets, digitisation and new technologies in all its planned and future legislative proposals on tax matters. Member States are invited to take into account the specificities of the use of crypto-assets in their national tax reforms and to consider developing more effective systems.

Progress in developing an effective regulatory and legal framework

Parliament pointed out that the crypto-asset landscape is global and that the tax treatment of crypto-assets requires a **coordinated international approach**. The OECD, which has already done substantial work on both taxation and the treatment of crypto-assets, could be a suitable forum in this regard.

In the absence of an international agreement on the taxation of crypto-assets, the EU and its Member States are left without a basis on which to build an intelligent and forward-looking approach. The Commission is invited to present an assessment of major taxable events and forms of income associated with crypto-assets and conduct an impact assessment on the best practices identified to fairly and effectively tax crypto-assets.

The resolution called for a **common approach to the taxation of crypto-assets** in accordance with the competences defined by the Treaties. It invited the Council to engage in a structured dialogue with the Parliament on this issue.

It is also necessary to **amend the scope of the Directive on administrative cooperation** so that the framework for the exchange of information in the field of taxation includes crypto-assets and e-money. The Commission is invited to include in its future revision of the Directive, the forthcoming OECD recommendations on the reporting of crypto-assets and the revisions to the Common Reporting Standard, as well as the recommendations of the Parliament as set out in its resolution on the implementation of the EU's tax information exchange requirements.