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South Korea

South Korea Revving Up for Virtual Currency Crackdown

By Elaine Ramirez

South Korean officials will create a special task force to review cryptocurrency taxation in other countries—benchmarks that will help them take “strict action” against illegal use, the Prime Minister's Secretariat said.

The Dec. 13 statement comes as countries, including India and Brazil, grapple with the treatment and regulation of virtual currency. South Korea is one of the world's biggest markets for bitcoin and ether. The government doesn't recognize cryptocurrency as a financial product or legal tender, and is currently weighing several levies to impose, like a value-added tax.

Snapshot

- Tax authorities examining rules in other countries
- Regulating virtual currency means government must recognize it first

The South Korean government will “amend necessary regulations” so there are punishment options to crack down on cryptocurrency-related crimes, Lee Ho-sup, director of the finance ministry's value-added tax division, told Bloomberg Tax.

“What we are looking to do is to cooperate with experts and related departments to discuss and form appropriate measures to clarify what specific actions should be subject to taxation,” he said Dec. 14.

The Enforcers

The government is seeking opinions from private-sector exports and weighing whether income or transactions should be taxed, Lee said. There isn't a timeline for creating the task force, although officials are already asking other countries about their experiences, Lee said.

“We heard opinions recommending to reflect on China and Russia as they have had difficulties regulating it,” he added.

A multi-agency group including the National Task Service and Ministry of Justice is already hoping to form new rules for virtual currency transactions and to prevent speculative overheating in the market.

Finance, technology and justice ministry officials participated Dec. 13 in a vice ministerial meeting to address the need to strengthen regulation of virtual currency crimes, according to the Prime Minister's Secretariat statement.

Tax authorities also want to investigate violators of the Foreign Exchange Transactions Act for cryptocurrency embezzlement and “promote the joint enforcement of related institutions,” if necessary, the statement said.

Tax Options

The U.S., U.K., and Germany, along with other countries, impose individual or corporate income tax on cryptocurrency, as well as capital gains taxes in some cases. Some countries, like Singapore, are also implementing a transaction tax, said Sang-jun Kim, a certified public accountant at HMP Law.

“The Korean government may consider imposing capital gains tax to individuals and VAT for cryptocurrency transactions. The obligations to submit data for cryptocurrency transactions of corporates may also be added,” Kim told Bloomberg Tax.

But South Korea hasn't yet determined whether taxation will be imposed on crypto-derived profits, on cryptocurrency transactions, or if nominal taxes should be imposed because no supporting regulation exists to set a framework for taxes to be levied, said Jung Ho-seok, a managing partner at Seum Law.

The main issue is that the government must switch its position, and recognize cryptocurrency, in order to regulate it, he said.

"It seems that the government is in a situation where it is difficult to decide on taxing directions while maintaining the position of disregarding cryptocurrency as a financial product," Jung said.

Based on the government's position, the possibility of the government recognizing cryptocurrency as money or a financial product is quite low, but there is a high possibility of recognizing it as a product that could be subject to income or value-added tax, he said.

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For More Information

The statement by the Prime Minister's Secretariat can be found, in Korean at http://www.pmo.go.kr/pmo/news/news01.jsp?mode=view&article_no=97141&board_wrapper=%2Fpmo%2Fnews%2Fnews01.jsp&pager.offset=0&board_no=6

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