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Məqalə redaksiyaya daxil olub 15.03.2023
The article was received by editorial board on 15.03.2023
Статья принята к печати 15.03.2023

IMPLEMENTATION OF TAX ACCOUNTING FOR CRYPTOCURRENCY TRANSACTIONS IN AZERBAIJAN

Abstract

The price increase in the cryptocurrency market over the past 1 year has resulted in a further increase in the interest of ordinary citizens and amateur investors in digital assets. At the same time, the increase in prices has motivated people to invest in cryptocurrencies. At the moment, the main questions that interest investors are: how are the commissions charged during the purchase and cashing of cryptocurrencies and in what form is tax paid on cryptocurrency income. Considering these factors, the information contained in this article about the commissions charged during cryptocurrency trading and the mechanism of taxation of cryptocurrency income is quite relevant.

Key words: *cryptocurrency, tax, accounting, finance.*

INTRODUCTION

According to the Tax Code, income received by a taxpayer from transactions with cryptocurrency is considered income from non-business activities.The State Tax Service informed that at this time, the person receiving the income should be registered with the tax authorities, obtain a TIN, calculate income tax at the rate of 14 percent in accordance with the Tax Code, and submit the income tax declaration to the tax authority no later than March 31 of the following year. must pay to the state budget.

Currently, there are various types of virtual currency in the world. One of them is stablecoins. Before looking at the characteristics of stablecoins, let's look at the essence of virtual currency in general. Virtual currencies exist in two types of schemes: centralized and decentralized. Centralized currency schemes predate decentralized currencies. Centralized currencies have a central depository and are usually managed and controlled by a single organization. (1) Decentralized currencies do not have a single depository center, they are issued and operate in a decentralized manner. Centralized virtual currencies rely on a third party to create new virtual currencies, verify transactions, and update accounting transactions.

Decentralized virtual currencies operate on the basis of blockchain or distributed ledger technology (DLT). Blockchain technology is an innovative platform that enables transactions using procedures and protocols in payment systems, clearing and settlements, especially in e-government systems. DLT is an architecturally decentralized network environment that does not require intermediaries to verify and authorize transactions. All payment transactions are crypto-protected and enter the DLT network, and a direct (Peer-to-Peer) connection is created between the beneficiary and the issuer without intermediaries.(4)

Stablecoins are cryptocurrencies that are backed by the national currency of any country or assets such as gold and are built to provide more stability than other cryptocurrencies, and there are several types of stablecoins:

- *stablecoin supported by the national currency of any country;*
- *stablecoin supported by cryptoassets;*
- *stablecoin backed by precious metals;*
- *algorithmic stablecoin.(4)*

Stablecoins backed by national currency are more common. Unlike other cryptocurrencies, which have sharp changes in value, national currency-backed stablecoins are subject to very small price deviations. However, this does not mean that these types of stablecoins are completely safe. They are relatively new to the market and due to the lack of information about their risks, caution should be exercised when investing.

Cryptoasset-backed stablecoins have high volatility. For example, a stablecoin backed by a cryptoasset worth $1 may be backed by a cryptoasset worth $2. Thus, when the supporting crypto-asset increases in value, the added value of $1 acts as a cushion, stopping the impact on the value of the stablecoin.(3,102)

Precious metal-backed stablecoins mainly protect their value with gold and other precious metals. These stablecoins are centralized and this feature protects them from the volatility of the crypto market.

Algorithmic stablecoins are not backed by any assets, which makes it difficult to be considered a stablecoin. These types of stablecoins protect their value from price fluctuations using a computer algorithm. If the price of an algorithmic stablecoin closes at $1 USD, but the value of the stablecoin rises further, the algorithm automatically releases more coins into circulation to lower the price. If the price falls below 1 USD, the algorithm reduces the supply and brings the price back to the previous level.(2.78)

Cryptocurrencies and cryptocurrencies have two main characteristics: they enable seamless payments between two parties and act as an expression of value. You can spend traditional money in cash or load it onto a debit or credit card. Common currencies are used for direct purchases, money transfers, paying bills or taxes, etc. can be used for Most of the existing traditional currencies are applicable only for domestic payments. It is necessary to convert them into other currencies outside the country. An exchange fee is usually applied to those transactions. Although the commission for the exchange is not directly stated, there is always an exchange rate margin, that is, the difference between the exchange rate at which banks and currency exchange services trade and the exchange rate offered to consumers.

As for cryptocurrencies, they also offer features that traditional monetary systems cannot currently offer: cryptocurrencies can be spent and received by anyone, anywhere in the world, at any time, without the need for a bank or government. This is the most revolutionary aspect of cryptocurrencies.(6,108)

Stablecoins can also be used for everyday purchases at traditional outlets. With multi-currency wallets, it is possible to quickly convert crypto to traditional money. For example, Trust Wallet, one of the most popular multi-asset crypto wallets, allows you to convert stablecoins into traditional money and spend them as cash. In 2019, wallet software BitPay announced the introduction of stablecoin payments for merchants and consumers worldwide. Some crypto ATMs, such as Instacoin in Canada, support cashing out of the most popular stablecoins in selected locations.(7, 148)

On the other hand, stablecoins are not accepted everywhere. Their availability depends on national policies and regulations. Some countries ban cryptocurrency altogether, while others continue to promote its use.

Besides being used for daily shopping, it is also possible to trade stablecoins on crypto exchanges. Some exchanges allow you to lend your stablecoins and earn interest on them. There are both fixed and flexible lending models, as well as peer-to-peer (P2P) crypto lending markets.

A country's digital central bank currency (CBDC) is a digital representation of that country's official currency. CBDC facilitates the implementation of monetary and fiscal policy and promotes financial inclusion in the economy. The main difference between CBDC and stablecoin is that CBDC is issued by the country's monetary policy authority or central bank. Stablecoin is issued by a private organization.

Currencies such as the potential digital euro and digital yuan backed by central banks could become a reality in the coming years. Unlike cryptocurrencies like Bitcoin and Ethereum, these currencies promise less volatility and more security. In addition, they will be supported by the relevant monetary institutions responsible for ensuring financial stability.

The mechanism of calculating income on cryptocurrencies is actually quite a complicated procedure. For this, the initial investment amount of cryptocurrency and the price at which the asset was cashed must be indicated in the tax return. As a result, if there is income from the difference between these amounts, then 14% tax should be calculated on this income. However, as long as cryptocurrencies are not given a legal value, the application of this procedure will not give real results. 10-18% tax and service fee are charged from plastic cards provided by banks operating in Azerbaijan when funds are deposited into cryptocurrency exchanges or electronic payment systems. That is, the citizen pays this fee before making a profit. At this time, such a question arises - why does this person have to pay taxes again? Is that fair?

A person who wants to invest in cryptocurrencies in Azerbaijan faces 4 consecutive commission costs:

1. Fee during entry to the stock exchange: charged by the bank;
2. Commissions charged during trading on the stock exchange: charged for each transaction on the stock exchange;
3. The commission charged when digital funds are withdrawn from the exchange: charged by the exchange based on specific rates;
4. Fee charged at the time of cashing the funds received in the bank account: banks charge as a cashing commission.

The investment made should be profitable to the extent that all this simplicity can exceed the commission costs. In any case, during the purchase of crypto-currency, the citizen pays a sufficiently high fee in advance, regardless of the increase in the price of the asset in the future. In addition, he has to pay commissions for buying and selling transactions and expenses in the stock exchanges. After paying all these expenses, it would be naive to expect a citizen to voluntarily submit a tax return to pay the 14% income tax again.

I believe that the application of the tax mechanism to crypto-currency transactions should be based on the principles of justice, and should be determined based on specific tariffs, regardless of whether it is a natural person or a legal entity. This applies to taxes and fees applied both when buying and cashing out digital currencies. It is possible to solve 3 important issues by applying the legalization of cryptocurrency transactions, simplified procedures and the optimal tax rate:

1. Conducting statistical accounting of transactions on digital assets in Azerbaijan;
2. Taxation of turnover on cryptocurrency transactions;
3. Determining the number of corporate and retail investors.

Implementation of a fair and objective tax mechanism will motivate corporate companies and citizens to pay income tax on crypto-transactions.

THE RESULT

As a result, the payment of tax on cryptocurrency income in Azerbaijan can only be on a voluntary basis, as there is currently no mechanism for official monitoring of crypto-investments or cryptocurrency trading transactions. In addition, cryptocurrencies are not recognized as assets or property under current legislation. Therefore, according to the Tax Code, the income received by a citizen of the Republic of Azerbaijan from cryptocurrency transactions is considered income from non-entrepreneurial activity. At this time, the income earner is registered with the tax authoritiesTINmust obtain and pay 14% income tax on the obtained income according to the Tax Code.

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Azərbaycanda kriptovalyuta əməliyyatlari üzrə vergi uçotunun tətbiqi

Xülasə

Kriptovalyuta bazarında son 1 il ərzində qiymətlərin artması adi vətəndaşların və həvəskar investorların rəqəmsal aktivlərə olan marağının daha da artması ilə nəticələndi. Bununla bərabər, qiymətlərin artması insanları kriptovalyutalara investisiya etməyi motivasiya edib. Hazırda investorları maraqlandıran əsas suallar: kriptovalyutaların alışı və nağdlaşdırılması zamanı tutulan komissiyalar necə tutulur və kriptovalyuta gəlirindən vergi hansı formada ödənilir. Bu faktorları nəzərə alaraq, bu yazıda kriptovalyuta ticarəti zamanı tutulan komissiyalar və kriptovalyuta gəlirlərinin vergiyə cəlb edilməsi mexanizmi barədə məqalədə yer alan məlumatlar olduqca aktualdır.

Açar sözlər: *kriptovalyuta, vergi, uçot, maliyyə.*

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Внедрение налогового учета операций с криптовалютой в Азербайджане

Резюме

Рост цен на рынке криптовалют за последний 1 год привел к дальнейшему росту интереса простых граждан и инвесторов-любителей к цифровым активам. В то же время рост цен побудил людей инвестировать в криптовалюты. На данный момент основные вопросы, которые интересуют инвесторов: как взимаются комиссии при покупке и обналичивании криптовалюты и в какой форме уплачивается налог на доход от криптовалюты. Учитывая эти факторы, содержащаяся в данной статье информация о комиссиях, взимаемых при торговле криптовалютой, и механизме налогообложения дохода от криптовалюты является весьма актуальной.

Ключевые слова: *криптовалюта, налог, бухгалтерский учет, финансы.*