

Regulatory Impact Statement: Crypto-asset Reporting Framework

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions
Advising agencies:	Inland Revenue
Proposing Ministers:	Minister of Revenue
Date finalised:	8 May 2024
Problem Definition	
<p>Inland Revenue currently has a lack of visibility over income derived through cryptoassets. This presents a tax compliance risk as taxpayers could underreport or conceal income they generate through these assets. This proposal seeks to improve tax compliance regarding cryptoassets.</p>	
Executive Summary	
<p>Overview</p> <p>Cryptoassets are digital representations of value that can be transferred, stored or traded electronically. Instead of relying on a financial institution to verify transactions, cryptoasset transactions are confirmed by computers operating on the cryptoasset's network. This is known as distributed ledger technology. Blockchain is a form of this technology.</p> <p>In almost all cases, the disposal of cryptoassets is taxable in New Zealand. Disposals include selling cryptoassets for money, exchanging one cryptoasset for another type of cryptoasset and using cryptoassets to pay for goods or services.</p> <p>The characteristics of cryptoassets pose unique challenges for tax administrations from a tax compliance perspective, as they can be stored and transferred in a decentralised manner, without reliance on traditional financial intermediaries. This has given rise to a new set of intermediaries, such as cryptoasset exchanges and wallet providers, that are subject to little regulatory oversight. The Financial Markets Authority in New Zealand does not regulate cryptoassets, and only regulates cryptoasset issuers or providers to the extent that a product they are offering meets existing definitions for financial products and services. Cryptoassets are also similarly unregulated in other jurisdictions. These factors mean that tax authorities do not have visibility over incomes derived through cryptoassets, like they do with incomes derived through more traditional sources (such as employment income, investment income, and income from financial institutions. For example, Inland Revenue receives regular income information from employers and investment income payers. New Zealand has also implemented the OECD Common Reporting Standard (CRS) which imposes information gathering and reporting obligations on financial institutions in relation to financial account information, and this information is shared with tax authorities in participating jurisdictions.)</p> <p>Most OECD countries have indicated that they will implement the CARF.</p>	

Along with the implementation of CARF, the OECD also approved a set of amendments to the CRS in order to bring new financial assets, digital financial products, and intermediaries in scope, because they are potential alternatives to traditional financial products. The amendments include an optional election to report under the CRS the information on certain assets that has to be reported under the CARF to minimise duplicated reporting.

Option 1 – Status quo (no action)

Under the status quo, Inland Revenue would not receive any information in respect of income derived by New Zealand residents through offshore cryptoasset intermediaries. This is because these intermediaries are not subject to NZ legislation and information demand powers under the Tax Administration Act 1994. Inland Revenue would receive information from New Zealand intermediaries on an ad-hoc basis when utilising these information demand powers but would not receive regular income information from these intermediaries. Under the status quo, Inland Revenue would be reliant on self-reporting by taxpayers of their cryptoasset income and on those taxpayers being aware of their tax obligations (essentially voluntary compliance).

Advantages of taking no action

Inland Revenue would not need to make necessary system changes to process and analyse a largescale information exchange. Cryptoasset intermediaries would not have to make the necessary system changes to allow for regular exchanges of information.

Disadvantages of taking no action

The visibility that Inland Revenue has over incomes derived through cryptoassets would remain limited and this would present cryptoasset users with increased opportunity to conceal incomes from Inland Revenue (it effectively relies on voluntary compliance). Ad hoc information requests also arguably impose a greater compliance burden on cryptoasset intermediaries rather than a standardised international schema.

As noted above, as of 8 May 2024 most OECD countries have signalled that they intend to implement the CARF (more than 50 jurisdictions have publicly committed to implementing the CARF by signing up to a joint statement supporting its implementation.) Taking no action may have negative reputational impacts on New Zealand

Option 2 – OECD Crypto-Asset Reporting Framework

The Organisation for Economic Co-operation and Development (the OECD) has developed a Crypto-Asset Reporting Framework (CARF) that will require intermediaries, such as cryptoasset exchanges, brokers and dealers, to provide tax authorities with income information in respect of users operating through them. Further details on the CARF will be provided in section 2 of this regulatory impact statement.

The CARF will be subject to an international information exchange framework. This means that jurisdictions that receive information on the activities of cryptoasset users under the CARF will be required to share that information with tax authorities of other countries that have also implemented the CARF, to the extent that the information relates to persons resident in that jurisdiction. Similarly, tax authorities will also receive information from other jurisdictions' tax authorities where the rules have been implemented.

Advantages of OECD CARF

Implementing the CARF in New Zealand domestic legislation will achieve the intended policy objectives of improving Inland Revenue's visibility over incomes derived through cryptoassets by NZ tax residents, and thereby supports greater tax compliance.

One clear advantage of this OECD-led solution is that it promotes a standardised schema with significant buy in and consultation having been undertaken with cryptoasset intermediaries themselves. This standardised schema reduces compliance costs for intermediaries, compared to responding to ad-hoc requests for information from many different tax authorities. Further, if jurisdictions designed their own rules, the variations between jurisdictions would result in increased compliance costs for cryptoasset intermediaries that had to design their information systems to satisfy the requirements of multiple bespoke rules.

This solution also leverages existing technological frameworks that have been implemented by tax authorities worldwide for the automatic exchange of information of financial account information, as seen recently in the context of the gig and sharing economy.

Limitations of the OECD CARF

The success of the information flows from the CARF is dependent on other countries signing up for improved information flows. This is because information will only be shared among tax authorities whose countries have implemented the rules (that is, if New Zealand implemented the rules, Inland Revenue would only receive information from other tax authorities that were also subject to the rules). This will not be much of an issue in practice, as the CARF initiative is a global minimum standard, which means all OECD countries are required to implement it. To date, over 50 jurisdictions have publicly committed to implementing the CARF by signing up to a joint statement supporting its implementation.

Option 3 – Bespoke rules

The third option considered is for the NZ Government to design and implement its own rules to require cryptoasset exchanges, brokers and dealers to provide information on NZ resident users directly to Inland Revenue.

Advantages of bespoke rules

One theoretical advantage of developing bespoke rules is that NZ could prescribe the data we wanted to collect from cryptoasset intermediaries along with the frequency and timing of this information.

The purpose of collecting this information is to undertake compliance work to ensure New Zealanders who derive income through cryptoassets are complying with their tax obligations. The information prescribed to be shared by the OECD CARF is fit for purpose in this regard and therefore there would be no advantage in practice from developing bespoke rules.

Disadvantage of bespoke rules

One key disadvantage of a bespoke solution is that it would be difficult for New Zealand to collect data from non-resident cryptoasset intermediaries with NZ users. This is because our domestic law would be unenforceable, and information requests would be sitting outside the internationally agreed OECD framework which has received a large degree of buy-in across many jurisdictions. This is a significant disadvantage given approximately 80% of NZ cryptoasset users' activity is undertaken through offshore exchanges. Moreover, the CARF is a global minimum standard, and this means all OECD countries are expected to implement it. It follows that if NZ were to elect to implement a bespoke regime that could undermine our participation at the OECD.

A bespoke solution for NZ would also increase compliance costs for cryptoasset intermediaries (to the extent that it is enforceable) and could result in a reduced appetite for them allowing NZ users to operate through them. A bespoke regime would also take much

longer to implement as a more extensive consultation would be required (noting that under the OECD solution a lot of this work has been done).

Option 4 – annual disclosure regime

Similar to the annual disclosure that is required under current law in respect of foreign shares, Inland Revenue could require owners of cryptoassets to provide information on their holdings on an annual basis.

Advantages of an annual disclosure regime

One theoretical advantage of an annual disclosure regime is that it does not require intermediaries to provide tax authorities with information in respect of cryptoassets. This lowers compliance costs for intermediaries.

Disadvantages of an annual disclosure regime

An annual disclosure regime levies compliance costs on individuals that hold cryptoassets. This is arguably inefficient as the provision of information can more effectively be dealt with by intermediaries who are larger, more sophisticated and have the technological systems in place to process thousands of transactions in real time.

Another key disadvantage of an annual disclosure regime is that it relies on voluntary compliance by individual holders of cryptoassets. This would not necessarily translate to increased tax compliance and therefore would not fulfil the policy objectives. This is because individuals who would comply with a disclosure regime are likely to be individuals who would also comply with their tax obligation anyway.

Option 2 is the preferred option.

Impact of the preferred option

The primary purpose of the OECD CARF is to improve tax authorities' visibility over incomes derived by users through cryptoasset intermediaries. This visibility is important as cryptoassets operate outside the traditional financial system and have given rise to a new form of intermediary (such as exchange and wallet providers).¹ The OECD CARF creates a standardised information exchange framework to minimise compliance costs for cryptoasset intermediaries.

The information that Inland Revenue would receive from other tax authorities under the CARF will reduce the ability for cryptoasset holders in NZ to successfully conceal or under-report income derived through these assets. This information will be used by Inland Revenue to ensure tax compliance and also monitor for any high-risk activity or behaviours that may be symptomatic of fraud or illegal activity (due to their decentralised and somewhat anonymous nature, cryptoassets can be used to facilitate illegal activities).

In terms of specific impacts, the following parties are affected in the following ways:

- 1. Cryptoasset intermediaries that are subject to the CARF:** These intermediaries will need to provide information to tax authorities about the activity of users on their platforms (although this will be covered later on in this regulatory impact statement, this will include reporting on crypto-to-crypto transactions, crypto-to-fiat transactions

¹ Cryptoasset exchanges facilitate the purchase, sale and exchange of cryptoassets for other cryptoassets or fiat currencies. Wallet providers offer digital wallets which individuals can use to store their cryptoassets.

and relevant transfers). Cryptoasset intermediaries will also be required to gather and report personal information on their users. As this is a significant reporting obligation, cryptoasset intermediaries will be required to invest in developing the necessary systems. It is anticipated that there are several cryptoasset exchanges in New Zealand that would fall within the CARF.

- 2. Users of cryptoasset intermediaries:** Reduced opportunities to conceal income derived through cryptoasset intermediaries. As transactions will be under increased scrutiny and subject to reporting, this may also change behaviour of the small percentage of users who may utilise cryptoassets for illicit activities (this is because patterns of behaviours that suggest a risk of illicit activity will be more readily identifiable by authorities). Cryptoasset intermediary users may also have to provide some additional personal information or identifying details to these intermediaries to the extent that isn't already covered by AML regulations.
- 3. Inland Revenue:** Changes will be required to Inland Revenue's START system to ensure that the information received from cryptoasset intermediaries and other tax authorities is aligned with the OECD's schema. There will be additional ongoing administration costs to support the information exchange with other tax authorities (ensuring the data meets appropriate data quality standards). Additional compliance resource will be needed to analyse the information received under the CARF in order to determine whether profits derived through cryptoassets are income, and therefore subject to tax.

Consultation

The OECD released a public consultation document on the CARF in March 2022 which included a draft version of the rules and specific questions for submitters. This consultation closed 29 April 2022. Approximately 80 submissions were received, primarily from tax advisory firms, banks and large cryptoasset exchanges. These were published on the OECD website.

Inland Revenue also undertook a round of targeted consultation on the proposed implementation of the CARF. This involved sending a letter to cryptoasset intermediaries potentially impacted by any reporting regime. The letter consulted on both implementing the CARF in New Zealand and sought thoughts on adopting a bespoke regime.

Submitters were largely supportive of an OECD-led solution and recognised the benefit of a standardised international solution in minimising compliance costs for reporting crypto-asset service providers. The main concern raised by submitters was ensuring that there was sufficient lead in time to allow reporting entities to make the necessary system changes to be able to comply with the CARF.

Limitations and Constraints on Analysis

There were no constraints or limitations on the analysis in this statement.

Responsible Manager

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8 May 2024

Quality Assurance

Reviewing Agency:	Inland Revenue
Panel Assessment & Comment:	<i>The Quality Assurance review panel at Inland Revenue has reviewed the regulatory impact statement (RIS) prepared by Inland Revenue and considers that information and analysis summarised in the RIS Crypto-Asset Reporting Framework meets the quality assurance criteria.</i>

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

Since the introduction of Bitcoin in 2009, the market for cryptoassets worldwide has experienced fast growth and development. There are currently almost 21,000 cryptoassets with a market capitalisation of almost US\$4 trillion dollars. The technological innovations brought about by the growth of cryptoassets and blockchain technology has also led to the development of new products such as decentralised finance, non-fungible tokens, and the Metaverse.

Between 6% to 10% of New Zealanders own some cryptocurrency, according to three different online surveys which were conducted in 2022.² Inland Revenue's analytics show that 80% of cryptoasset activity by New Zealanders is undertaken through offshore exchanges.

The characteristics of cryptoassets pose unique challenges for tax administrations from a tax compliance perspective. Cryptoassets utilise cryptography and can be stored and transferred in a decentralised manner without reliance on traditional financial intermediaries.³ This has given rise to a new set of intermediaries, such as cryptoasset exchanges and wallet providers, that are subject to little regulatory oversight. In many cases, the intermediary will be located in a different jurisdiction to its users, and it is difficult for tax authorities to obtain information about their tax residents if this information is held offshore.

Inland Revenue does not receive regular information on income derived through cryptoassets (like it does from banks or employers in respect of investment income or salary and wages or under the OECD Common Reporting Standard (CRS) on financial account information from international financial intermediaries). The information that Inland Revenue currently receives

² Financial Markets Authority, *2022 Investor Confidence Survey*, Survey conducted March and April 2022; Financial Services Council, *Money And You* research report. Survey conducted January 2022; Finder Cryptocurrency adoption index, August 2022.

³ Cryptography is a digital process of using algorithms to validate messages and transactions in order to secure digital information against unauthorised access or corruption.

is through ad hoc information demands under Inland Revenue's information gathering powers in the Tax Administration Act 1994, and these information demands can only be applied to cryptoasset intermediaries that are operating in NZ and therefore subject to NZ law. There are mechanisms to request information through tax treaties from other jurisdictions but these can be impractical and difficult to apply on a regular basis.

This means that Inland Revenue currently lacks sufficient visibility over incomes derived through cryptoassets and is reliant on voluntary compliance by taxpayers. Increased information flows are required to support tax compliance and ensure that individuals pay the correct amount of tax. This will also provide Inland Revenue with the opportunity to further educate taxpayers on what their tax obligations are with respect to cryptoassets.

Inland Revenue receives regular employment and investment income information from employers and banks, and this is generally used to pre-populate income tax returns. Taxpayers in these circumstances will typically confirm that the information that is pre-populated in their income tax returns is correct and can make adjustments if necessary. This reduces their compliance costs as they do not need to collate information about their income earned from various sources and can instead rely on information that has already been provided to Inland Revenue.

As the world becomes more digitalised and connected, it is commonplace for income to be derived and facilitated through large platforms or institutions. The OECD has led and co-ordinated measures to ensure that tax authorities retain visibility over incomes generated through such means. Examples include the OECD Common Reporting Standard (CRS), which facilitates the automatic exchange of financial account information between tax authorities, and more recently, the OECD initiative on the taxation of the gig and sharing economy, which requires digital platforms to provide tax authorities with income information in respect of sellers operating through these platforms.

Cryptoasset intermediaries are similar to employers, banks, digital platforms and other third parties that hold information that is useful for tax administration purposes. This includes information about the profits derived through cryptoassets. This information would be useful for Inland Revenue if it were available on a regular basis, as it would ensure that sellers were declaring the income they earn through these assets.

Cryptoasset intermediaries are generally sophisticated and have business models that allow them to accurately track and process millions of transactions. Because these intermediaries operate in many different countries it is desirable from their perspective that any requirement to provide tax authorities with information about sellers that use their platform is simple to understand and comply with, whilst minimising compliance costs to the extent possible.

Given the growth of cryptoassets (which currently have a combined market capitalisation of almost 4 trillion USD, compared to just 17 billion USD at the start of 2017), it is appropriate that the Government consider ways in which it can increase visibility over incomes derived through cryptoassets by New Zealand residents.

The OECD have developed a CARF that jurisdictions can implement.

The CARF provides for the collection and automatic exchange of information on cryptoassets. Under the CARF, entities that facilitate exchange transactions on behalf of customers (Reporting Crypto-Asset Service Providers) will be required to provide tax authorities with information regarding transactions in Relevant Crypto-Assets by Reportable Users.

At a high level, Reporting Crypto-Asset Service Providers must collect and report personal information (such as the name, address, date of birth and tax identification number) for all its Reportable Users, along with aggregate level data on all Relevant Crypto-asset transactions

in relation to each Reportable User. This data includes information on crypto-to-crypto transactions, crypto-to-fiat transactions and transfers of relevant cryptoassets (such as to a wallet address) broken down by relevant asset. The CARF also includes various valuation and currency translation rules, such as specifying that the amount paid or received is reported in the FIAT currency in which it was reported or received.

Crypto-Asset Service Providers will also be required to follow a self-certification process in respect of each user to determine whether that user is a reportable user. In short, this requires that the provider goes through AML/KYC requirements and obtains a signed certification from each user with relevant personal information, including confirmation of their country of tax residence.

There are certain assets, such as shares issued in crypto form, which could qualify as reportable under the CARF and as financial assets that would be reportable under CRS (e.g. shares issued in crypto form). To avoid duplicative reporting, the CRS amendment contain an optional provision to switch-off reporting under the CRS if such information is reported under the CARF.

The way in which Inland Revenue would receive information under the CARF is through an information exchange agreement with other jurisdictions. Jurisdictions that receive information on the activities of crypto-asset users from Reporting Crypto-Asset Service providers will be required to share that information with tax authorities of other countries that have also implemented the rules to the extent that the information relates to persons resident in that jurisdiction. Tax authorities will also receive information from other jurisdictions' tax authorities where the rules have been implemented.

International context surrounding the CARF

The OECD have been undertaking work over the past few years to develop a CARF that jurisdictions can implement. A draft framework was consulted on by the OECD in early 2022 and the final CARF rules were declassified publicly on 10 October 2022. The success of this initiative depends on its widespread implementation by jurisdictions. If some countries do not implement the CARF, then cryptoasset users could undertake their cryptoasset activity through intermediaries located in a jurisdiction that had not implemented the rules. This would undermine the objective of the CARF of increasing visibility over incomes derived through cryptoassets.

It is noted that this should not be an issue in practice as the CARF is a global minimum standard. This means that all OECD countries are expected to implement it. To date, over 50 jurisdictions have publicly committed to implementing the CARF by issuing a joint statement outlining their commitment to its implementation.

The CARF is set to apply from the 2026/27 tax year, with the first information exchanges taking place in 2027 in respect of the 2026-year data).

The OECD are currently working on finalising the IT schema for the CARF. Once finalised, this will be released to tax administrations and crypto-asset service providers and other financial institutions to enable them to make IT changes to implement the CARF.

What is the policy problem or opportunity?

The policy problem this proposal seeks to address is to improve Inland Revenue's visibility over incomes derived through cryptoassets. Having access to this information will help improve tax compliance (if individuals do not include income derived through cryptoassets in their tax return then Inland Revenue will know).

As mentioned previously in this impact statement, cryptoassets and underlying blockchain technology has grown at a rapid rate in recent years, with the current market capitalisation of these assets nearing 4 trillion USD. The technological advances afforded by blockchain technology also continue to grow at a rapid rate as new financial offerings are brought to market that utilise blockchain technology (such as non-fungible tokens, the development of decentralised finance and the growth of the metaverse).

It is important that tax authorities improve their visibility of incomes derived through cryptoassets. If nothing is done to support improved information flows, then this could compromise tax compliance and the ability of Inland Revenue to ensure cryptoasset users pay the correct amount of tax. Increased visibility over cryptoasset incomes is forecast to generate \$50m in revenue per annum, as Inland Revenue will utilise this information to support tax compliance.

The proposals to require cryptoasset intermediaries to provide Inland Revenue with transaction information in respect of their users would affect:

Cryptoasset intermediaries: These intermediaries will have reporting obligations to tax authorities in respect of relevant cryptoasset transactions undertaken by their users. This includes compiling reports and identifying information about users and their transactions. Cryptoasset intermediaries would be required to make the necessary system changes to enable this information reporting to occur.

Users of cryptoasset intermediaries: Inland Revenue would have improved visibility over incomes derived through cryptoassets and therefore users would have a reduced ability to conceal any income or criminality.

Inland Revenue: Under both the OECD CARF and a bespoke regime, Inland Revenue would receive information from cryptoasset intermediaries on transactions undertaken by their users. This information could be used to support tax compliance and tax administration functions. Inland Revenue would also be required to make the necessary system changes to its computer system, START, to allow for the automatic exchange of information.

What objectives are sought in relation to the policy problem?

The objective is to improve visibility over incomes derived through cryptoassets to ensure increased tax compliance.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

The criteria that have been used to assess the options are:

Fairness: Is the option effective at facilitating the payment of the correct amount of tax by taxpayers? This is often described as horizontal equity: the idea that people in the same position should pay the same amount of tax. Tax should not be easier to avoid just because someone works in a different industry or sector (for example, if a person's income is derived through cryptoasset trading as opposed to a salary and wage earner).

Compliance costs: Does the preferred option achieve the desired policy objective of visibility over incomes derived through cryptoassets whilst minimising compliance costs for cryptoasset intermediaries and users.. Due to the nature of the policy objective, it is recognised that there will be some compliance costs but the preferred option will minimise these to the extent possible.

Administration: Is the preferred option possible for Inland Revenue to implement and administer without substantial ongoing administration costs?

Efficiency: Does the preferred option minimise impediments to economic growth and avoid distortions to taxpayer decisions? Does the preferred option ensure that comparable investments are effectively taxed in the same way?

Coherence: Does the preferred option make sense in the context of the entire tax system and New Zealand's international tax relations? Is the preferred option consistent with New Zealand's broad-base low-rate framework?

Sustainability: Is the preferred option future-proofed? Will the option be able to apply and extend to future developments in the cryptoasset space without the need for further regulatory change?

What scope will options be considered within?

In order to improve tax compliance with regard to incomes derived through cryptoassets, it follows that Inland Revenue will need access to income information. The most feasible option to improve these information flows is to require cryptoasset intermediaries to provide this income information to Inland Revenue in some way or another. There is scope in terms of the exact categories of information to be collected and the timing and frequency of this information (for example, if a bespoke regime were implemented).

What options are being considered?

Option One – Taking no action

Under the status quo, Inland Revenue would not receive any information in respect of income derived by New Zealand resident through offshore cryptoasset intermediaries. This is because these intermediaries are not subject to NZ legislation and information demand powers under the Tax Administration Act 1994. Inland Revenue would receive information from New Zealand intermediaries on an ad-hoc basis when utilising these information demand powers, but would not receive regular income information from these intermediaries.

This means that the visibility Inland Revenue has over incomes derived through cryptoassets would remain limited and this would present cryptoasset users with increased opportunity to conceal incomes from Inland Revenue.

Most other OECD countries have recently indicated they will implement CARF. Taking no action would mean that New Zealand would not be aligned with other OECD countries.

Option Two – Implementing the OECD CARF

The CARF is a global minimum standard. This means all OECD countries are expected to implement it. To date, over 50 jurisdictions have signed up to a joint statement signalling their commitment to implementing the CARF. Countries that have signed up to date include Australia, Canada, the UK, USA and most of Europe.

Implementing the CARF will achieve the intended policy objectives of improving Inland Revenue's visibility over incomes derived through cryptoassets, and thereby supporting greater tax compliance. As mentioned earlier in this regulatory impact statement, the standardised schema provided through the CARF reduces compliance costs for intermediaries, compared to responding to ad-hoc requests for information from many different tax authorities which would apply if jurisdictions implemented bespoke regimes. Standardisation also reduces system build costs for intermediaries as all requests are managed in a standardised format.

Inland Revenue would use the information provided under the CARF to promote tax compliance. This would be in the form of specific compliance activity and prompting individuals that do derive income through cryptoassets to include this in their income tax return. This will make it harder for individuals to conceal incomes derived through cryptoassets from Inland Revenue.

Although information obtained under the CARF is tightly controlled, the information could also be utilised to monitor for any high risk activity or behaviours that may be symptomatic of fraud or illegal activity (due to their decentralised and somewhat anonymous nature, cryptoassets can be used to facilitate illegal activities).

Inland Revenue is not considering using this information to pre-populate income tax returns at this stage. This is because profits derived through selling cryptoassets are not necessarily income (although they will be in most cases). Cryptoassets are taxed on a realisation basis in New Zealand in accordance with section CB 4 of the Income Tax Act 2007 (based on the dominant purpose at acquisition). This means that it can be unclear if profits derived through cryptoassets and reported under the CARF are taxable (the dominant purpose on acquisition may be to derive a passive income through staking, rather than to make a profit for example), although in a lot of cases they clearly would be taxable. However, pre-population of income tax returns with cryptoasset income is something that may be considered at a later date. This

could be of particular benefit once potential policy changes are made to simplify the way tax is calculated on cryptoassets (which is something that could be considered subject to prioritisation as part of the Government's Tax Policy Work Programme).

It is noted that if NZ tax settings and the information flows under the CARF were able to work synergistically with each other to enable accurate pre-population (at least for some categories of cryptoassets where it would be clear that a disposal is taxable), then it is clear that this would bring obvious benefits in reduced compliance costs. This would make it much easier for individuals to comply with their tax obligations as their taxable income would be calculated without them having to do anything, allowing them to avoid complex calculations and rely on information reported under the CARF. This potential benefit points to the CARF being a sustainable and enduring solution.

Option 3 – Bespoke regime

An alternative solution would be to implement bespoke information reporting requirements in New Zealand's domestic legislation. Under this option, Inland Revenue would receive information about users' incomes earned through cryptoasset intermediaries. The difference between this option and the OECD CARF is that Inland Revenue could prescribe what categories of information, along with timing and frequency of information that it receives from cryptoasset intermediaries.

Just like option 2, this would provide Inland Revenue with income information to support tax compliance. As Inland Revenue could prescribe the frequency and timing of information, this would allow for easier pre-population to our 1 April – 31 March tax year, in the event that we elected to go down this pathway in the future.

There is a risk that this option would not be sustainable long term as cryptoasset intermediaries may refuse NZ customers if we attempted to impose bespoke reporting obligations on them. A bespoke regime would also not be in line with the internationally agreed standards developed by the OECD to which NZ is a member country. As previously mentioned, 80% of New Zealanders conduct their cryptoasset activities through offshore exchanges and a bespoke solution would not be as effective in compelling compliance by offshore exchanges (our laws would not apply to overseas jurisdictions and so it would not be anywhere near as effective as the CARF and its information exchange protocol).

The other problem with this approach is that it would increase compliance costs for cryptoasset intermediaries who would need to implement bespoke system changes to comply with New Zealand's domestic legislation. This could increase the likelihood of non-compliance, and could result in Inland Revenue not receiving any income information.

Option 4 – annual disclosure regime

Similar to the annual disclosure that is required under current law in respect of foreign shares, Inland Revenue could require owners of cryptoassets to provide information on their holdings.

This would result in increased visibility over incomes derived through cryptoassets but would not necessarily translate to increased tax compliance. This is because those who would adhere to a disclosure regime are probably compliant taxpayers anyway. This option does not effectively deal with the tax compliance issue, as the decentralised nature of cryptoassets makes it easier for motivated individuals to conceal their incomes without third party reporting.

How do the options compare to the status quo/counterfactual?

	Option One - Status Quo	Option Two – OECD CARF	Option 3 – Bespoke Regime	Option 4 – Annual disclosure regime
Fairness	0	++	++	0
Compliance costs	0	0	-	-
Administration costs	0	-	-	-
Efficiency	0	+	+	0
Coherence	0	++	-	+
Sustainability	0	++	-	++
Overall assessment	0	++	-	+

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

The option that is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits is implementing the OECD's CARF (Option 2). This option will achieve the policy objective of ensuring Inland Revenue has visibility over incomes derived through cryptoassets and thereby supporting tax compliance.

This option has clear benefits over option 3 (bespoke rules). Firstly, by adopting a standardised OECD schema this reduces compliance costs for cryptoasset intermediaries. The OECD CARF is also a more sustainable solution given it has buy-in from jurisdictions worldwide and greater support from cryptoasset intermediaries. Although a bespoke regime would provide New Zealand with the theoretical flexibility to mandate timing of reporting and the categories of information to be reported, this is not necessary. This is because the information prescribed to be shared under the OECD CARF is fit for purpose to promote tax compliance in New Zealand. If, at a future date, Inland Revenue decided to utilise the information received through cryptoasset intermediaries to pre-populate income tax returns, a bespoke regime would provide some advantages (such as the ability to ensure that information was provided in accordance with NZ's 1 April – 31 March tax year, as opposed to a calendar year as is likely under the CARF). This theoretical benefit is far outweighed by the benefits of standardisation and reduced compliance costs afforded under the CARF however.

What are the marginal costs and benefits of the option?

Affected groups <i>(identify)</i>	Comment <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	Impact <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	Evidence Certainty <i>High, medium, or low, and explain reasoning in comment column.</i>
Additional costs of the preferred option compared to taking no action			

Regulated groups (users of cryptoasset intermediaries)	As Inland Revenue will receive more information about users activities through cryptoasset intermediaries it will be harder for motivated users to avoid paying tax.	n/a	Medium
Regulators (Inland Revenue)	Will be required to utilise income information received through cryptoasset intermediaries for tax compliance purposes.	<p>There is an upfront cost of \$6.7 million for the capital build, \$1.6 million for the operating build, and \$8.5 million operating allowance over the forecast period (2023/24 to 2027/28) to implement the CARF. The operating costs include depreciation and capital charge.</p> <p>There are also ongoing administration costs for Inland Revenue beyond the current forecast period.</p>	High
Others (cryptoasset intermediaries)	<p>New Zealand resident cryptoasset intermediaries would be required to provide Inland Revenue with aggregated information in respect of transactions undertaken by users on their platforms.</p> <p>Offshore cryptoasset intermediaries in jurisdictions that have implemented the CARF would be subject to an information exchange and these jurisdictions would provide Inland Revenue with information in respect of NZ resident users operating through these offshore intermediaries.</p>	<p>Low to Medium</p> <p>(Cryptoasset intermediaries would face lower compliance costs if information is provided through a standardised schema such as the CARF. Although the information exchange and collection mandated under the CARF is greater than status quo).</p>	High

	As a consequence of these information exchanges, these cryptoasset intermediaries will need to make necessary system changes and will incur compliance costs.		
Total monetised costs	<i>n/a</i>	\$8.3 million upfront and ongoing costs amounting to an additional \$8.5 million over the forecast period (2023/24 to 2027/28).	High
Non-monetised costs		<i>Low</i>	<i>Medium</i>
Additional benefits of the preferred option compared to taking no action			
Regulated groups (users of cryptoasset intermediaries)	Users of cryptoasset intermediaries will find it easier to comply with their tax obligations. This is because the information Inland Revenue receives under the CARF will be aggregated and converted into FIAT, thereby minimising the income tax calculations an individual would need to undertake (as discussed above under preferred option).	Low	High
Regulators (Inland Revenue)	Inland Revenue would have improved information flows about incomes derived by cryptoasset users through cryptoasset intermediaries. This information will be used to ensure these users are paying the correct amount of tax.	\$50m per annum	Medium
Others (eg, wider govt, consumers, etc.)	New Zealand's anti money laundering and counter terrorism regimes will be	<i>n/a</i>	Low

	bolstered if high risk cryptoasset activity that suggests criminal activity is identified and passed on to the relevant authorities. There will also be a general fairness benefit to taxpayers who do not hold cryptoassets. This is because income derived through cryptoassets that may have previously been hidden from Inland Revenue will now be subject to tax.		
Total monetised benefits	n/a	\$50 million over the current forecast period, and \$50m per annum thereafter	Medium
Non-monetised benefits		<i>Low</i>	<i>Medium</i>

The total estimated benefit of \$50m per annum incorporates an assumption that the information received under the CARF is used by Inland Revenue for compliance initiatives. There would be a particular focus on taxpayers that have derived large amount of profits through cryptoassets or on taxpayers who are not compliant with their tax obligations.

The benefit has been estimated using a macroeconomic approach that estimates the total value of cryptoassets held by New Zealanders and then uses a series of assumptions to form the basis of the model. The size of the cryptoasset market in NZ has been calculated by comparing NZ's relative share of global GDP against the total market capitalisation for cryptoassets and then scaling this down conservatively based on the percentage of New Zealanders who invest in this asset class. This figure has then been layered with a number of assumptions such as the probability that any given disposal is taxable, rate of return, assumed tax rate, current compliance level, and how much of an uplift in compliance will be achieved through utilising the data for compliance measures.

Conservative figures were used in arriving at this estimate given the highly volatile nature of cryptoassets in general.

Section 3: Delivering an option

How will the new arrangements be implemented?

Inland Revenue will be responsible for the implementation and ongoing administration of the new rules. Inland Revenue will provide information to increase awareness regarding the new rules. This will include producing a relevant Tax Information Bulletin item and updating guidance on Inland Revenue's website along with relevant press releases to advise cryptoasset intermediaries and users of the changes.

Implementing these proposals would require legislative change. Similar to how FATCA/CRS and the taxation of the gig and sharing economy proposals were adopted, a legislative change could be made to state that the OECD CARF, schema and user guide have force in NZ's domestic legislation. Greater legislative change would be required for a bespoke regime.

From an Inland Revenue systems perspective, there would be a sizeable upfront cost to build functionality within START (Inland Revenue's computer system) to enable for the sharing and receiving of income information with other jurisdictions.

The preferred option is that the OECD's CARF is implemented with the 2026/27 tax year being the first year that information is required to be collected by cryptoasset intermediaries in New Zealand affected by the rules. This means that:

- New Zealand cryptoasset intermediaries must adhere to a self-certification process in respect of each user and collect and report this self-certification information along with all aggregate level data on all relevant crypto-asset transactions in relation to each reportable user. This data will cover information on crypto-to-crypto transactions, crypto-to-fiat transactions and transfers of relevant cryptoassets. This information will be subject to various valuation and currency translation rules, such as specifying that the amount paid or received is reporting in the fiat currency in which it was reported or received.
- Inland Revenue would need to exchange this relevant information with other jurisdictions, to the extent that the information held related to foreign tax residents in jurisdictions that had also implemented the OECD CARF.
- Inland Revenue would use the information it received to support New Zealand users of cryptoasset intermediaries to comply with their tax obligations. This will ensure greater tax compliance and minimise the opportunities for these individuals to conceal incomes derived through cryptoassets.

How will the new arrangements be monitored, evaluated, and reviewed?

If the OECD CARF was implemented, it is noted that the OECD will be able to allocate resources to making any changes to the CARF where necessary. Any changes to the OECD schema and rules can then be reflected into domestic legislation in NZ. Given the likely widespread buy-in from jurisdictions, this ensures a more enduring and sustainable policy reform. New Zealand regularly participate in OECD meetings so would be able to provide a contribution towards any discussions evaluating or seeking to make improvements to the CARF.

The OECD would also answer questions and issue clarifications on how the OECD rules were to operate to ensure that jurisdictions understood the technical aspects of the rules.

Inland Revenue would also allocate resource to compliance initiatives to ensure that the information received was effectively utilised to support users of cryptoasset intermediaries to pay the correct amount of tax.

Inland Revenue regularly reviews tax settings on an ongoing basis and provides advice and updates to the Government accordingly. Policy officials maintain strong communication channels with stakeholders in the tax advisory community and these stakeholders will be able to correspond with officials about the operation of the new rules at any time. If problems emerge, they will be dealt with either operationally, or by way of legislative amendment if agreed by Parliament.