TECHNICAL ASSISTANCE REPORT

REPUBLIC OF ARMENIA

Tax Compliance and Crypto Assets

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Authoring Department
Fiscal Affairs Department

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Contents

Abbreviations and Acronyms

AEOI	Standard for Automatic Exchange of Financial Account Information on Tax Matters
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automatic Teller Machine
ATO	Australian Taxation Office
CARF	Crypto-Asset Reporting Framework
CBA	Central Bank of Armenia
CDWG	Cross Department Working Group
CRS	Common Reporting Standard
DSP	Designated Service Provider
DGNEAR	European Neighborhood Policy and Enlargement Negotiations Program
DNM	Darknet Market
EC	European Commission
EOI	Exchange of Information
EU	European Union
FAD	Fiscal Affairs Department
FAQ	Frequently Asked Questions
FMC	CBA Financial Monitoring Centre
IRS	Internal Revenue Service
IT	Information Technology
NFT	Non-fungible Tokens
OECD	Organisation for Economic Co-operation and Development
RoA	Republic of Armenia
SRC	State Revenue Committee of Armenia

Preface

In response to a request from the Chairman of the State Revenue Committee of Armenia (SRC) at the 2023 Spring Meetings, a capacity development (CD) mission team, comprising Graham Whyte (Fiscal Affairs Department) and Philipp Hochreiter (Short Term Expert, specializing in Digital Assets), visited Yerevan, Armenia during the period April 15–23, 2024. The purpose of this mission, financed by the European Commission (EC) under their European Neighborhood Policy and Enlargement Negotiations Program (DGNEAR), was to provide CD on tax compliance issues relating to Crypto assets.

Several productive workshops and meetings were held with relevant staff of the SRC. The first workshop was opened by Mr. Ashot H. Muradyan, Deputy Chairman of the SRC. In addition, meetings were held with other Crypto asset stakeholders, including the Central Bank of Armenia (CBA) and the Armenian anti money laundering agency, the CBA Financial Monitoring Centre (FMC).

The report's findings are based on information and documents provided by the SRC. The IMF team expresses its sincere appreciation for the excellent cooperation and participation of SRC staff in the workshops and meetings. In addition, the excellent support provided both before and during this mission by the SRC. The team acknowledges the excellent support provided by Dr. Narine Fahradyan, Tax Cooperation Division, International Cooperation Department, SRC and Dr. Andranik Hakobyan, Head of Transfer Pricing and Application of Tax Treaties Unit, SRC.

This report represents the final version of the aide-mémoire that was submitted to Mr. Ashot H. Muradyan, Deputy Chairman, SRC on April 22, 2024, and incorporates comments from IMF reviewers. It consists of an Executive Summary and the following sections: (I) Background; (II) Key Issues; and (III) Next Steps.

Executive Summary

In November 2023, the Republic of Armenia (RoA) committed to the adoption of the Organisation for Economic Cooperation and Development (OECD) Crypto-Asset Reporting Framework (CARF), and initiation of the first CARF automatic exchange of information by 2027. To give effect to this, the RoA will need to enact domestic legislation.

Currently, no crypto asset specific provisions, including an explicit definition, exist in the RoA's domestic tax code. Incorporated Crypto asset miners, exchanges, and retail investors are taxed on their economic operations and/or gains. However, there is uncertainty as to the appropriate tax treatment (including valuation issues) of crypto asset transactions leading to an inappropriate tax outcome. This uncertainty is further amplified by the lack of financial regulations for the crypto asset sector in Armenia. The Central Bank of Armenia (CBA) has announced that it is developing crypto asset regulations. In addition, non-entrepreneur individuals are exempt from the taxation of such gains under the tax code.

The mission team provided the SRC with a template to facilitate the creation of a structured risk assessment on Tax Compliance and Crypto Assets. Based on the preliminary results of the risk assessment, the workshop participants conducted a tentative gap analysis with support of the mission team. This will need to be finalized by the State Revenue Committee (SRC).

The mission team was provided with an internal SRC draft on proposed crypto asset amendments to the RoA tax code. The draft includes various provisions relating to the scope of tax obligations, applicable tax rates, and reporting requirements. In terms of definitions, the draft refers to the definitions to be enacted in the forthcoming "RoA Law on Crypto-assets" being developed by the CBA. Both the SRC and CBA are working in lockstep on proposals to remedy the identified weaknesses in terms of tax and financial regulation. In the alternative, the RoA could consider a broader reform to introduce a capital gains tax, which explicitly includes crypto assets as underlying securities and so the capital gains would be liable for Personal Income Tax (PIT).

The internal SRC draft may benefit from a further review to ensure that all provisions required for an effective crypto asset tax framework are included. For instance, the current SRC draft does not yet contain valuation rules for income streams generated by crypto asset only activities. Furthermore, crypto asset only activities other than mining appear not to be covered by the current SRC draft.

The Government of the RoA will need to consider and decide on the extent of reporting by the Crypto Asset Service Providers, including Crypto Miners. Reporting under CARF is limited to reporting on the transactions of non-residents in their country of residence where a tax treaty with an exchange of information provisions is in place. The use of third-party data, such as crypto asset transactions, plays an important role in supporting modern tax administrations to ensure complete and accurate information in assessments. Many jurisdictions have implemented reporting arrangements where all crypto asset transactions are reported on tax residents and non-residents.

The workshop participants have identified the lack of tools and know-how to analyze/trace crypto asset transactions as one of the key impediments for effective crypto asset related tax

enforcement in Armenia. This needs to be addressed to ensure that SRC compliance activities will be effective.

The mission team workshopped with the SRC the development of a step-by-step roadmap for implementation of the new laws, once passed into law by the Parliament. It has eight steps, and the roadmap sets out each activity and assigns responsibilities and timelines for delivery.

Recommendations

Crypto Assets		
1.	Finalize and document the Risk Assessment on Crypto Assets and seek its endorsement by the Compliance Risk Management Council.	July 2024
2.	Review the draft law to ensure that the crypto-asset amendments to the tax code are comprehensive and include all crypto-asset-related activities that might create taxable income, particularly mining and staking. In the alternative, the RoA could consider a broader reform to introduce a capital gains tax that would also tax gains on crypto assets.	December 2024
3	Ensure that the crypto-asset amendments to tax code include clear and objective valuation rules for crypto asset income generated by crypto asset activities without corresponding fiat currency transactions (e.g., mining, staking, crypto asset to crypto asset swaps, airdrops).	December 2024
4	Consider and decide on whether to recommend to Government the extent of reporting (i.e., residents and non-residents) by Crypto Asset Service Providers, including Crypto Miners, in the RoA.	December 2024
5	Implement the Eight Step Roadmap at Annex 1.	Note timelines in the roadmap

I. Background

1. The Republic of Armenia (RoA) has committed to the implementation of the Organisation for Economic Cooperation and Development (OECD) Crypto-Asset Reporting Framework (CARF).[1] This requires the first automatic exchange of information by 2027. This commitment follows the RoA's previous decision to implement the OECD Standard for Automatic Exchange of Financial Account Information on Tax Matters (AEIO), and to initiate the first exchange of information by 2025.[2]

2. To fulfill its international obligations pertaining to CARF, the RoA will need to enact domestic legislation. An internal draft amendment to the RoA's tax code has been finalized by the SRC, and the internal draft has been subjected to peer review by OECD experts. Among other things, the internal draft includes obligations for Reporting Crypto-Asset Service Providers[3] to collect and report relevant data in line with CARF requirements.

3. Currently, no crypto asset specific provisions exist in the RoA's domestic tax code. Crypto asset miners, exchanges, and retail investors are taxed on their economic operations and/or gains under the current tax code. However, there is uncertainty as to the appropriate tax treatment (including valuation issues) of crypto asset transactions leading to inappropriate tax outcomes. The absence of crypto asset specific tax provisions, in particular, the valuation of the applicable tax base for crypto asset transactions impedes the SRC's ability to effectively challenge the veracity of some of the crypto asset service providers' income statements. In addition, non-entrepreneur individuals are exempt from the taxation of such gains under the tax code.[4]

4. The IMF has published a comprehensive report on Taxing Crypto Currencies.[5] It acknowledges that policymakers are struggling to accommodate cryptocurrencies within tax systems not designed to handle them. It identifies that the greatest challenges for implementation are: crypto's quasi-anonymity is an inherent obstacle to third-party reporting. It states that the tax revenue at stake worldwide may be in the tens of billions of dollars.

5. The current uncertainty as to the appropriate tax treatment of crypto asset transactions is further amplified by the lack of financial regulations for the crypto asset sector in Armenia. The lack of applicable financial regulations for the crypto asset sector makes it difficult to properly identify crypto asset market participants and the volume/value of crypto asset transactions. Forthcoming financial

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[1] https://www.oecd.org/tax/transparency/documents/CARF-signatories-joint-statement.pdf and https://www.oecd.org/tax/automatic-exchange/news/armenia-commits-to-start-automatic-exchange-of-financial-account-information-by-2025.htm

[2] https://www.oecd.org/tax/transparency/documents/armenia-commits-to-start-automatic-exchange-of-financial-account-information-by-2025.htm

[3] Crypto Asset Service Providers should be defined widely and include miners.

[4] Article 149 of the tax code explicitly excludes income from alienation of securities from the tax base for Personal Income Tax. In other words, there is no capital gains tax for securities held by individuals under the PIT in Armenia,

[5] See Taxing Cryptocurrencies, Katherine Baer, Ruud de Mooij, Shafik Hebous, and Michael Keen. https://www.imf.org/wpiea2023144-print-pdf.

regulations of the crypto asset sector should put in place an appropriate registration/licensing regime and reporting requirements for crypto asset service providers.

6. **Both the SRC and CBA are working in lockstep on proposals to remedy the identified weaknesses in terms of tax and financial regulation.** In addition to the SRC's internal draft on amendments to the RoA's tax code, the CBA has produced a proposal for a comprehensive regulatory framework for the crypto asset sector.[6] The CBA's proposal envisages the introduction of licensing, prudential, and conduct requirements similar to the requirements of the European Union's Markets in Crypto-Assets Regulation. The CBA draft regulations also contain provisions requiring licensed crypto asset service providers to apply in full the RoA's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework. It is expected that the formal legislative process for a sector wide crypto asset regulatory framework will commence in late 2024.

7. **Both regulatory initiatives are likely to enhance the authorities' ability to monitor developments in the RoA's crypto asset markets and to take enforcement actions, as necessary.** It is intended that a list of all licensed crypto asset providers will be published on the CBA's website, which should help the SRC's efforts to identify active crypto asset market participants. Reporting requirements on crypto asset transactions are included in both the SRC's and the CBA's proposals.

A. What does SRC want to achieve?

8. **The SRC's overarching objective is to close the gaps identified above to further enhance the effectiveness of the RoA's tax framework.** With respect to its international obligations under CARF, the SRC seeks to take all necessary steps to ensure a compliant and seamless automatic exchange of information pertaining to relevant crypto asset transactions by 2027. Domestically, the SRC seeks to contribute to the policy making process to ensure that crypto asset specific amendments to the tax code address the identified gaps.

9. **In seeking to close the identified gaps, the SRC has highlighted the need to be guided by international good practices.[7]** The SRC has reached out to the IMF Fiscal Affairs Department (FAD) for CD to achieve a better understanding of the content and requirements of international good practices in this area. In addition, how these good practices may be effectively incorporated into the RoA's legal tax framework and implemented by the SRC. Furthermore, the SRC is engaging with OECD experts on a regular basis.

B. The Crypto Asset Market in Armenia

10. **Significant uncertainties as to the size, structure, and risks of the Armenian crypto asset market exist.** The lack of reliable data makes it difficult to assess with certainty the actual volume of crypto asset market activity in the RoA. There are least two large crypto asset mining facilities, one of

[6] https://armenpress.am/eng/news/1123621.html

[7] The mission team has presented to and has discussed with the SRC international best practices in this area during the workshops, including in particular: Elements of Effective Policies for Crypto Assets, IMF Policy Paper, February 2023, https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/23/Elements-of-Effective-Policies-for-Crypto-Assets-530092

them marketing itself as state-of-the-art. It is a significant operation with a large server farm.[8] There are also a number of shopfront crypto asset exchanges. In addition, there are Automatic Teller Machines (ATMs) where crypto assets can be exchanged for local currency. There is also an Armenian Blockchain Association and a "Blockchain Embassy". The latter is apparently operated by a crypto asset service provider registered as a Virtual Asset Service Provider in Lithuania.[9]

11. Anecdotal evidence suggests that the Armenian crypto asset market is still nascent, albeit growing. Throughout all meetings held by the mission team with different RoA Authorities, participants have consistently stated that they deem current crypto asset market activity in Armenia to be limited. One reason for the limited adoption rate in Armenia might be the CBA's risk warning on the use of crypto assets of May 7, 2018.[10] It highlighted the risks crypto assets may pose to the investing public, economic agents, and financial institutions and the CBA has called upon all actors to refrain from engaging in any sort of crypto asset market activity. This "soft ban" by the CBA explicitly does not apply to crypto asset miners, which the CBA considers to be an Information Technology (IT) service and therefore outside of its regulatory perimeter. Furthermore, the lack of practical use cases, e.g., for everyday payments, has also been mentioned as a probable reason for the limited demand for crypto asset services. Given the small size of the market now, it is an opportune time to strengthen tax laws before the market gets bigger.

12. The available data, shown in the Figures below, seems to corroborate the limited size of crypto asset market activity in the RoA.

Figure 1. Crypto asset revenue in selected countries

Market: Fintech - Digital Assets - Cryptocurrencies, Region: Worldwide, Currency: USD

REVENUE in million USD (US$)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Albania	0.02	0.03	0.03	0.16	0.78	0.47	1.11	1.56	1.95	2.22	2.41	2.49
Argentina	0.78	1.24	1.33	7.93	47.09	41.84	112.50	193.60	264.50	306.10	327.10	343.00
Armenia	0.03	0.04	0.04	0.21	0.98	0.71	1.62	2.33	2.92	3.31	3.56	3.63
Australia	26.80	36.38	28.80	135.20	658.00	412.00	874.90	1121.00	1303.00	1418.00	1513.00	1650.00
Azerbaija	0.06	0.08	0.06	0.23	1.13	0.75	1.69	2.36	2.93	3.33	3.61	3.72
Belarus	0.14	0.23	0.23	1.16	4.93	2.03	4.03	4.79	5.35	5.74	5.87	5.99
Brazil	40.11	48.26	37.89	137.30	586.40	420.90	838.80	1094.00	1293.00	1424.00	1522.00	1577.00
Canada	45.66	61.37	49.41	224.00	1042.00	672.00	1381.00	1742.00	2000.00	2158.00	2292.00	2396.00
Estonia	0.46	0.63	0.50	2.10	9.66	5.26	11.71	14.25	16.06	17.21	18.63	20.36
Georgia	0.05	0.07	0.07	0.30	1.45	1.08	2.51	3.65	4.62	5.24	5.64	5.73
Germany	32.21	76.33	87.92	507.30	2189.00	1004.00	1782.00	2114.00	2364.00	2534.00	2537.00	2539.00
Iran	0.16	0.47	1.19	10.53	56.78	28.53	82.01	123.40	161.50	188.80	207.00	211.90
Japan	32.39	63.36	67.68	370.80	1487.00	755.90	1589.00	1919.00	2160.00	2321.00	2473.00	2613.00
Kazakhsta	0.78	1.24	1.16	6.30	29.18	19.61	39.09	47.66	53.44	56.91	60.66	64.74
Latvia	0.72	0.89	0.67	3.53	16.11	8.95	20.45	25.38	28.81	30.88	33.19	35.76
Lithuania	0.53	1.07	1.11	5.97	26.44	12.73	22.15	26.30	29.41	31.51	31.57	31.64
Moldova	0.04	0.06	0.05	0.24	1.11	0.64	1.39	1.72	1.95	2.10	2.24	2.40
Mongolia	0.00	0.02	0.02	0.12	0.66	0.47	0.97	1.26	1.47	1.59	1.68	1.74
Russia	78.25	98.89	80.73	335.80	1472.00	748.40	1657.00	2006.00	2258.00	2424.00	2615.00	2836.00
UK	62.94	89.21	71.22	323.60	1540.00	860.60	1942.00	2526.00	2989.00	3304.00	3559.00	3735.00
US	522.00	716.70	603.40	2945.00	12930.00	8626.00	17960.00	23220.00	27160.00	29660.00	31620.00	32900.00

Source: Statista

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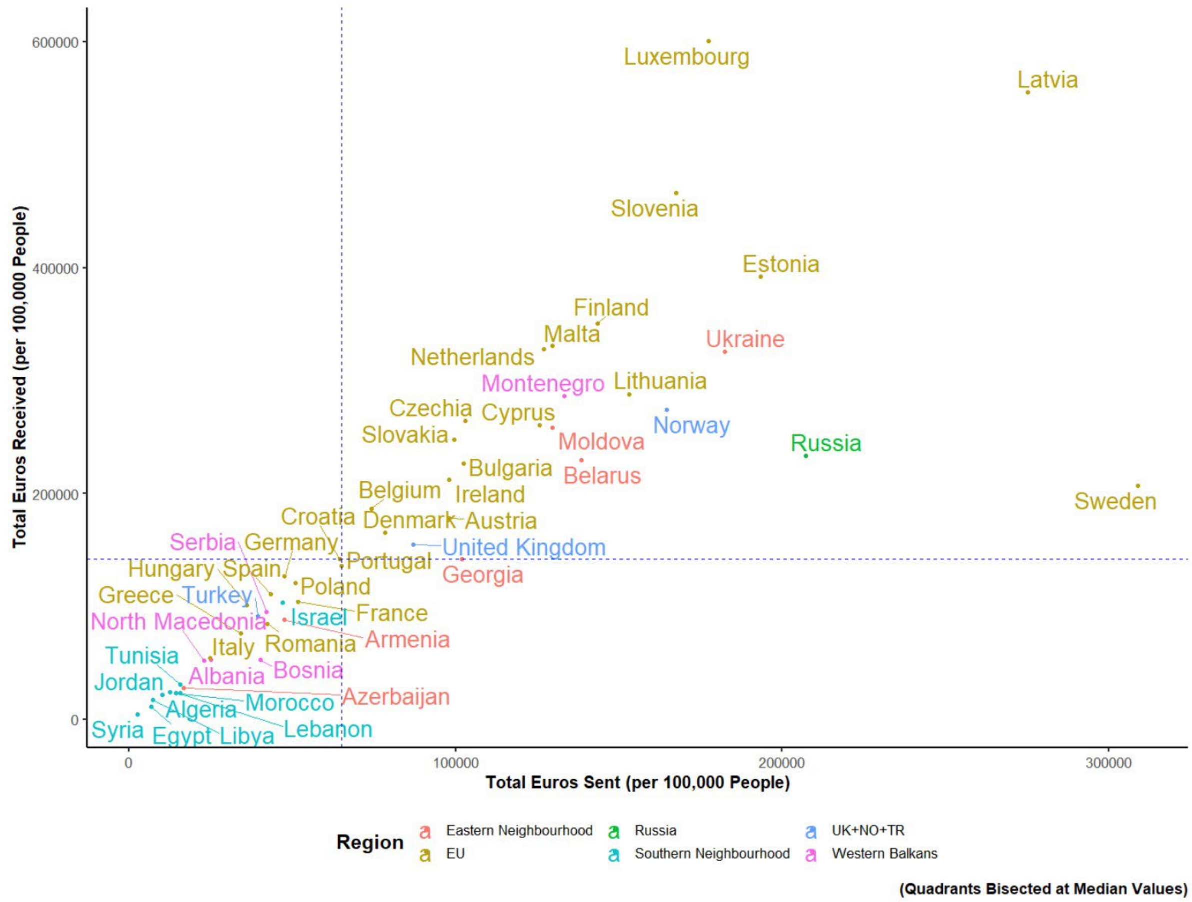
[8] https://finance.yahoo.com/news/armenian-pm-attends-launch-mining-144000663.html

[9] https://www.fastex.com/newsroom/fastex-continues-the-series-of-web3-related-meetups-at-the-blockchain-embassy-of-armenia

[10] https://www.cba.am/Storage/EN/warnings/crypto-assets.pdf

13. The Figure below suggests that the use of crypto assets in darknet markets[11] (DNM) is comparatively low in Armenia.

Figure 2. Total Darknet Market Cryptocurrency Sent/Received (per capita; in EUR)



Source: Grauer K, Jardine E.; *Cryptocurrencies and drugs: Analysis of cryptocurrency use on darknet markets in the European Union (EU) and neighboring countries*; European Monitoring Centre for Drugs and Drug Addiction; 2022

C. The current tax treatment of Crypto Asset Transactions

14. Currently, incorporated crypto asset miners, exchanges, and retail investors are taxed on their economic operations and/or gains under the existing tax code. The SRC advised that there is a lack of clarity in the application of the law leading to uncertainty as to the application of the law. There are no valuation rules to determine the taxable amount. In addition, it appeared that taxpayers are exploiting the lack of clarity to minimize tax payable.

15. The lack of statutory valuation rules for crypto assets prevents the SRC from objectively determining the tax base of crypto asset activities. Currently, the Armenian tax code does not include

[11] A darknet market is a commercial website on the dark web that operates via darknets such as Tor and I2P.

explicit valuation rules prescribing the applicable exchange rate to be used by tax residents and non-residents where the gain is sourced in the RoA when converting crypto asset income into Armenian dram for the purpose of their tax return statements. Given the high volatility of most crypto asset prices and, typically, the prevalence of price differentials for the same crypto asset/fiat currency trading pair at different crypto asset exchanges, statutory valuation rules are required for the SRC to be able to determine the appropriate tax base in local currency. This is particularly necessary for crypto asset activities such as mining, staking[12], crypto asset to crypto asset swaps, or air dropping[13], where taxable income may be received without a corresponding fiat currency transaction occurring.

16. In addition, non-entrepreneur individuals are exempt from the taxation of such gains under the tax code. There is an absence of provisions in the tax code for the taxation of capital gains by individuals.

17. While out of scope for this mission, there is an unresolved question of the treatment of crypto assets from a Value Added Tax (VAT) perspective. Purchases made with crypto should be subject to the same sales or value-added taxes, or VAT, which would be applied for cash transactions. To address this, the tax code would need to be amended to reflect the treatment of Crypto assets in the context of supply of services liable for VAT.[14]

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[12] The term "staking" refers to the process by which crypto asset holders volunteer to take part in validating transactions on a proof-of-stake blockchain, such as Ethereum. From a customer's perspective, it is a way to receive returns on their crypto assets, by agreeing for the crypto assets to be "put to work," or "locked up" (typically for a certain period of time ("lock-up period")). To ensure that validators act in accordance with the blockchain's rules, foul behavior by staking validators is usually penalized, e.g. their locked up coins ("stake") will be invalidated ("slashed") Sources: https://www.reuters.com/business/finance/what-is-staking-cryptocurrency-practice-regulators-crosshairs-2023-02-10/ ; https://ethereum.org/de/developers/docs/consensus-mechanisms/pos/rewards-and-penalties/

[13] A crypto airdrop may be used to distribute free cryptocurrency tokens or coins to wallet addresses, often as a marketing strategy to raise awareness, promote adoption, or reward community members.

[14] https://www.imf.org/en/Blogs/Articles/2023/07/05/crypto-poses-significant-tax-problems-and-they-could-get-worse

II. Key Issues

A. OECD Crypto-Asset Reporting Framework (CARF)

18. **As a signatory to CARF, the RoA has committed to implement all steps necessary to facilitate the automatic exchange of information in relation to certain crypto asset activities.** The key actions to be taken by the RoA include the enactment of domestic legislation requiring Crypto Asset Service Providers to report information and to implement relevant due diligence procedures pursuant to CARF; to have in place (technical) infrastructure that allows for effective (bilateral) exchange relationships with the Competent Authorities of the other signatory countries; and to implement appropriate safeguards to ensure confidentiality.

19. **When implementing its obligations under CARF, the RoA may want to consider streamlining its processes with those in place for the Common Reporting Standard (CRS).** While CARF is a framework separate from and complementary to CRS, some touchpoints may exist, e.g., for traditional financial institutions that also provide crypto asset services. Furthermore, synergies as to the collection, processing, and exchange of information may exist. While it is not yet clear which Authority will be designated as the Competent Authority under CARF, it is expected that the SRC will be the ultimate "users" of the CARF information received by the RoA.

20. **Based on a preliminary risk assessment conducted during the workshops, SRC workshop participants have identified gaps that need to be closed prior to CARF implementation.** In addition to the enactment of relevant legislation, the participants have identified as key concerns: the need for staff training to increase awareness and know-how; measures to educate and train prospective reporting entities including an appropriate communication strategy; and safeguards to ensure data confidentiality.

B. Crypto Asset Risk Assessment and Gap Analysis

21. **The mission team provided the SRC with a template to facilitate the conduct of a structured risk assessment.** The template and the underlying risk assessment methodology was presented in detail by the mission team during an interactive workshop held with participants of numerous relevant departments of the SRC. The mission team encouraged cross-departmental discussions during the workshop and provided guidance where requested. Guidance was provided with respect to risk identification, risk controls, and risk mitigation more broadly. According to the workshop participants' feedback, the guided risk assessment exercise helped them understand the current risk landscape and potential future challenges.

22. **It has become clear that to understand the tax compliance impacts of crypto assets a deep understanding of all technical aspects.** This will include the economic substance of transactions and the transaction flow is required. This level of understanding is required to effectively design and implement future laws.

23. **Based on the risk assessment's preliminary results, the workshop participants conducted a tentative gap analysis with support of the mission team.** The objective of the gap analysis was

twofold: (i) to identify domestic gaps and (ii) to identify gaps in terms of the SRC's readiness to comply with CARF obligations. With respect to (i), the participants identified gaps in the current tax framework and the lack of reliable data that impede the effectiveness of domestic tax enforcement for crypto asset market participants. In addition, they identified the risk that some taxpayers may use crypto assets to effectively hide taxable income from the SRC. Regarding (ii), the participants identified a broader range of areas with potential gaps, including gaps in the current legislative framework. Further, once the CARF is in place it will need processes in place to deal with information/data it may receive from treaty partners regarding tax residents of the RoA.

Recommendations

- Finalize and document the Risk Assessment on Crypto Assets and seek its endorsement by the Compliance Risk Management Council.

C. Proposed legal framework

24. The mission team was provided with an internal SRC draft on proposed crypto asset amendments to the RoA tax code. The draft includes various provisions relating to the scope of tax obligations, applicable tax rates, and reporting requirements. In terms of definitions, the draft refers to the definitions to be enacted in the forthcoming "RoA Law on Crypto-assets", which is expected to take into account the input of the CBA. It is understood that the SRC's draft has also been submitted to the OECD for peer review and a compliance assessment relating to the RoA's obligations under CARF.

25. Given the interdependence between the proposed tax amendments and the proposed RoA Law on Crypto-assets, close coordination between all relevant Authorities is important. From a tax compliance perspective, it will be important that the definitions of crypto assets, crypto asset activities, and crypto asset service providers to be enacted in the RoA Law on Crypto-assets will align with the SRC's objectives, and the RoA's international obligations under the CARF. As the RoA Law on Crypto-assets is expected to be aligned closely with the EU's Markets in Crypto Assets Regulation, technical assistance by the European Commission (EC) may be considered if necessary and appropriate.

26. The internal SRC draft may benefit from a further review to ensure that all provisions required for an effective crypto asset tax framework are included. For instance, the current SRC draft does not yet contain valuation rules for income streams generated by crypto asset only activities. Furthermore, crypto asset only activities other than mining appear not to be covered by the current SRC draft. The mission team does not express an opinion on the adequacy of the proposed law. The RoA could request assistance from the IMF Legal area.

27. In the alternative, the RoA could consider a broader reform to introduce a capital gains tax that would also tax gains on crypto assets.[15] This would explicitly include crypto assets as underlying securities whose capital gains would be liable for Personal Income Tax (PIT).[16]

[15] This broader reform is supported by the IMF Middle East and Central Asia Department.

[16] The Ministry of Finance has requested capacity development support on the introduction of such provisions.

28. The Box below identifies the potential crypto asset market participants in Armenia. Each participant should be considered in the design of the law and should be considered as part of any review.

Box 1. Potential Crypto Asset Market Participants Subject to Taxation

- **Crypto Asset Services Providers, including:**
  - Crypto Asset Exchanges
  - Crypto Asset Broker-Dealers
  - Crypto Asset Custodians/Wallet Service Providers
  - Crypto Asset Investment Entities/Asset Managers/Hedge Funds
  - Crypto Asset Lenders
- **Miners**
- **Staking Services Providers**
- **Stablecoin Issuers**
- **Non-fungible Tokens (NFT) Issuers and NFT Market Places**
- **Decentralized Finance Applications**
- **Retail and Corporate Investors**

Recommendations

- Review the draft law to ensure that the crypto asset amendments to the tax code are comprehensive and include all crypto-asset-related activities that might create taxable income, particularly mining and staking. In the alternative, the RoA could consider a broader reform to introduce a capital gains tax that would also tax gains on crypto assets.

- Review the draft law to ensure that the crypto asset amendments to tax code include the clear and objective valuation rules for crypto asset income generated by crypto asset activities without corresponding fiat currency transactions (e.g., mining, staking, crypto asset to crypto asset swaps, airdrops).

D. The extent of reporting by the crypto exchanges.

29. The Government of the RoA will need to consider and decide on the extent of reporting by the Crypto Asset Service Providers. Reporting under CARF is limited to reporting on the transactions of non-residents to their country of residence where a tax treaty with exchange of information provisions. The use of third-party data, such as crypto asset transactions, play an important role in supporting modern tax administrations processing of tax returns and ensuring complete and accurate information in assessments.[17]

30. Many jurisdictions have implemented reporting arrangements where all crypto asset transactions are reported on tax residents and non-residents. With a law change to make these transactions a tax event, reporting on both residents and non-residents would help maintain and, in some

[17] https://www.oecd-ilibrary.org/taxation/tax-administration-2017/third-party-data-management-the-journey-from-post-assessment-crosschecking-to-pre-filling-and-no-return-approaches_tax_admin-2017-20-en

cases, improve compliance. Full reporting would provide a shield to help ensure tax compliance once the law is in place and enacted.

31. Below are some international comparisons, with respect to jurisdictions where all transactions are reported. The Boxes below show some examples from Australia, the United States, and Brazil.

Box 2. International Comparison - Australia

It has been reported that more than one million Australians own crypto assets. Further, according to a research company[18], five per cent of Australian adults own at least one crypto asset, while more than one in ten Australians under thirty-five hold crypto assets

At the Australian Taxation Office (ATO), a crypto asset data-matching program has been in place since April 2019. Under the program, the ATO collected data on crypto transactions for the 2014–15 to 2019–20 financial years. The ATO has collected a further three financial years of data up to and including 2022–23. Its powers to collect the information is contained in Section 264 of the Australian Income Tax Assessment Act 1936.

The ATO obtains data relating to crypto asset transactions and account information from designated service providers (DSPs). The data obtained is used to identify the buyers and sellers of crypto assets and quantify the related transactions. The data provided includes names, addresses, phone numbers, bank accounts, transaction dates and coin types. It should be noted that the ATO collects data on all transactions, not just those that would be required to satisfy an obligation under the CARF.

The ATO matches the data provided by DSPs against its records to identify individuals who may not be meeting their registration, reporting, filing or payment obligations. It also provides “reminders” to taxpayers who have been reported by the DSPs that when they prepare their tax declarations, they may have capital gains or capital losses from crypto to declare. In addition, there is an extensive communication program to educate the community.[19]

The ATO states on its website that “it has a responsibility to protect public revenue and to maintain community confidence in the integrity of the tax system. Our data-matching programs assist us to fulfil this responsibility.”[20]

- Source: IMF Staff

[18] Roy Morgan Research, see, https://www.afr.com/markets/currencies/does-the-ato-know-about-my-crypto-investments-20220622-p5avpq

[19] https://www.afr.com/markets/currencies/does-the-ato-know-about-my-crypto-investments-20220622-p5avpq

[20] https://www.ato.gov.au/about-ato/commitments-and-reporting/in-detail/privacy-and-information-gathering/how-we-use-data-matching/crypto-assets-2014-15-to-2022-23-data-matching-program-protocol/about-the-crypto-data-matching-program

Box 3. International Comparison - United States of America

In the United States, as a "Virtual Currency", "Cryptocurrency" is treated as property for federal tax purposes. General tax principles applicable to property transactions apply to transactions using virtual currency.[21] The Internal Revenue Service (IRS) defines a "Virtual Currency" as a digital representation of value, other than a representation of the U.S. dollar or a foreign currency[22]. A "Virtual Currency" is considered a "Digital Asset" by the IRS. Other "digital assets" include stablecoins and NFTs.[23]

Taxable transactions relating to digital assets may include:

- Reception of digital assets as payment for property or services provided.
- Reception of digital assets resulting from a reward or award.
- Reception of new digital assets resulting from mining, staking and similar activities.
- Reception of digital assets resulting from a hard fork.
- Disposal of digital assets in exchange for property or services.
- Disposal of a digital asset in exchange or trade for another digital asset.
- Sale of a digital asset.

Whether the resulting income (or loss) from a transaction involving crypto assets is characterized as capital or ordinary income would depend on how such assets were being used. For example, crypto assets received in exchange for a service would be categorized as ordinary income, and the taxpayer would include the fair market value of the crypto received when computing gross income. Alternatively, when a crypto asset is exchanged for another asset or converted into fiat currency (e.g., dollars), the transaction would result in a capital gain or loss. The amount of the gain or loss would depend on the fair market value of the asset received and the taxpayer's "basis" in the crypto asset (which is generally the fair market value of the crypto asset at the time of the transaction). Because crypto assets are not widely accepted for day-to-day payments, crypto assets owners must often convert their crypto assets into fiat currency before it can be used. That conversion would typically constitute a taxable event. US taxpayers need to report all their digital asset related income in their federal income tax return.

All crypto asset exchanges are required to report certain transaction information to the IRS under the Bank Secrecy Act. This information includes customer names, addresses, social security numbers or tax identification numbers, and transaction details such as amounts and dates.

The Infrastructure Investment and Jobs Act imposes additional data reporting requirements for brokers. Brokers must provide returns for taxpayers' trades performed on their platforms. The law also requires that individuals and companies who receive more than $10,000 in crypto proceeds from a single transaction in the course of their trade or business file returns with respect to the transaction.

To align with IRS requirements, several exchanges have adopted the practice of issuing Form 1099 to taxpayers. Anticipated legislative updates, including the introduction of Form 1099-DA for digital assets, will mandate comprehensive reporting by all US-based crypto asset exchanges, miners, encompassing even decentralized exchanges, to ensure adherence to IRS guidelines. This legislative shift aims at establishing uniform compliance throughout the crypto asset trading sphere.

- Source: IMF Staff

[21] https://crsreports.congress.gov/product/pdf/R/R47425 and https://www.irs.gov/irb/2014-16_IRB#NOT-2014-21).

[22] https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions.

[23] https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets)

Box 4. International Comparison - Brazil

In Brazil, transactions involving crypto assets must be reported to the tax administration. This applies to individuals, companies and brokerages, and includes all kinds of crypto-related activities, including buying and selling, as well as donations, barters, deposits, withdrawals and other transactions.

Brazil-based crypto asset exchanges are required to send the tax administration detailed reports on all crypto-related operations on monthly basis. The exchanges report the amounts of transactions and the identity of the customers.

Source: IMF Staff

32. With the implementation of CARF reporting it may be an appropriate time to expand the reporting requirements beyond that just for CARF. This would mean reporting on all crypto transactions to the SRC. Obviously, the reporters will need process and system changes, and this may be more cost effective to do at the same time.

33. The mission team supports expanded reporting by the Crypto Asset Service Providers. This will support tax compliance and ensure that tax gaps are minimized, and it is in line with international good practice.

Recommendations

- Consider and decide on whether to recommend to Government the extent of reporting (i.e., residents and non-residents) by Crypto Asset Service Providers, including Crypto Miners, in the RoA.

E. Tax compliance Issues

34. There is a current need to address cases of tax evasion where crypto assets are used to disguise or hide taxable activities. The lack of visibility because of the anonymous nature of crypto assets and the current unregulated market adds to concerns regarding taxpayers hiding gains from tax evasion. Crypto is not totally anonymous, however, the identification of transactors is highly technical and requires special skills. Law enforcement agencies in Armenia may have access to such skills. To address tax compliance issues the SRC may require access to new techniques such as Blockchain Analytics, described below, and information requested under the Exchange of Information (EOI) powers in double tax treaties to identify the participants.

35. The workshop participants have identified the lack of tools and know-how to analyze/trace crypto asset transactions as one of the key impediments for effective crypto asset related tax enforcement in Armenia. Depending on an internal cost-benefit analysis for such an investment, the SRC may want to consider one or more of the following options: develop in-house blockchain analytics tools tailored to the specific needs of the SRC; acquire/license analytical tools from a reputable private sector blockchain analytics service provider after having conducted stringent due diligence on the capabilities and legitimacy of such provider; cooperate, as appropriate, with other domestic authorities; and provide relevant staff with training offered by international organizations (e.g. Council of Europe cybercrime and crypto training).

36. Armenia has an extensive tax treaty network with forty-six tax treaties in place.[24] It is possible that, in appropriate cases, the SRC will be able to request information from treaty partners where their tax residents may have acquired and disposed of a crypto asset in another jurisdiction. The SRC may get this information in the future from an exchange under the CARF from another jurisdiction or from its current compliance activities. The tax outcome will depend on the taxation system in the other jurisdiction. Residents of Armenia are allowed to credit foreign taxes paid on income received abroad against their Armenian tax liabilities. The amount of foreign tax credit is limited to the amount of Armenian tax that would arise from the equivalent income in Armenia.

[24] https://taxsummaries.pwc.com/Armenia/Individual/Foreign-tax-relief-and-tax-treaties

III. Next Steps

A. Step-by-Step Roadmap

37. The mission team workshopped with the SRC the development of a step-by-step roadmap for implementation of the new laws once passed into law by the Parliament. It has eight steps. The first step has commenced with the creation of an internal draft of legislation by the SRC to give effect to the taxation of crypto assets and the CARF. The roadmap is at Annex 1. The roadmap should cover all the required activities.

38. The roadmap sets out each activity and assigns responsibilities and timelines for delivery. The roadmap should be treated as a living document and updated as necessary. There are several dependencies on progress to implement this new measure, particularly the enactment of the law by Parliament.

39. The actual exchange of data to the SRC and externally with treaty partners needs to have in place effective confidentiality safeguards etc. This is important to maintain the community's confidence in the system.

40. The OECD has in place guidance on the CARF and IT related data exchange issues. The OECD has published its standardized IT-format for providing structured feedback on exchanged Common Reporting Standard information – the CRS Status Message XML Schema – as well as the related User Guide. The CRS XML Schema is the IT-based and standardized format for the reporting of information under the CRS. The User Guide explains the information required to be included in each CRS data element to be reported in the CRS XML Schema. In addition, the OECD maintains and regularly updates a list of CRS-related Frequently Asked Questions (FAQ). These FAQs were received from business and government delegates and answers to such questions clarify the CRS and assist in ensuring consistency in implementation. The XML schema to support the exchange of information pursuant to the CARF will be published separately.[25]

41. The mission team left the following materials with the authorities.

- PowerPoint Slide Deck – “Regulating Crypto Assets”
- PowerPoint Slide Deck – “The Failure of FTX (case study)”
- PowerPoint Slide Deck – “The OECD Crypto-Asset Reporting Framework (CARF)”

Recommendation

- Implement the Eight Step Roadmap at Annex 1.

[25] https://www.oecd-ilibrary.org/sites/896d79d1-en/index.html?itemId=/content/publication/896d79d1-en

Appendix I. Step by Step Roadmap

Step	Title	Description	Responsible	Completion Date
Step 1	Governance Arrangements	Formalize the current working arrangements by setting up a cross department working group (CDWG) for implementation. The CDWG should develop a Project Plan and assess the recourse required to implement the Project Plan.	Deputy Chairman	July 2024
Step 2	Legislative Framework	Legislative process at the official's level has commenced with draft legislation (already reviewed by OECD experts). 1. Legislation for effective crypto taxation needs to be in place. Amendments to the tax code could be preceded by financial regulation on crypto based on CBA suggestions. The legislation should define the operators in the crypto industry that may support taxation legislation. The crypto taxation legislation, at a minimum, needs to define the tax base address valuation issues and the tax rate. 2. Legislation is also required to give effect to CARF in the domestic laws of the RoA. This will include reporting by crypto exchanges to align with CARF requirements and the CARF due diligence procedures to be followed by crypto exchanges. ***Decision point:*** Scope of Reporting i.e. Will the legislation require reporting of all crypto transactions on residents and non-residents or just	CDWG Cross-department; Methodology Department in close cooperation with all relevant SRC departments (e.g., IT, Audit, etc.)	December 2024

		those related to CARF (i.e., non-residents only).		
Step 3	Risk Assessment	Complete the Risk Assessment based on the SRC Risk Assessment Template and present to the Compliance Risk Management Committee for endorsement. The Risk Assessment should focus on Residents (broader) and Non-residents (CARF, narrower).	Risk Management Department	July 2024
Step 4	Communication Strategy	Develop a documented Communication Strategy. A communication process for tax code and CARF legislative changes needs to be in in place. Reporters currently have no knowledge/awareness. Engage with market players (miners, exchanges, and the crypto holders) as soon as possible. Crypto reporters may need more/closer efforts, e.g., IT infrastructure needed by crypto exchanges for collection and submission of CARF reporting data, All drafts posted on SRC website ("E-Drafts")	CDWG Methodology Department (as drafting unit), Communications area.	December 2024 – Dependent on enactment of legislation and finalization of intergovernmental consultation.
Step 5	SRC Internal Preparation	IT updates for electronic reporting. Exchange of Information process processes should already be in place but will need refining for CARF (see also OECD Manuals).	CDWG and IT Department.	March 2025
Step 6	Internal Training and Awareness	Different modules for training i.e., Awareness and Operational levels. General Awareness for all staff.	Training Department OECD CARF Unit	March 2025

		Operational training: more detail for staff directly involved in CARF processes		
Step 7	Automatic Exchange of Information	Needs to be set up; most probably launched in September 2027 based on 2026 data.	EOI Unit in International Cooperation Area.	September 2027
Step 8	Tax compliance – new tax system.	Develop Compliance Improvement Plan[26] with a tax compliance program to manage the new tax system for crypto assets.	CDWG Methodology Department	Prior to the effective date of applicability of the law

[26] https://www.imf.org/en/Publications/TNM/Issues/2022/03/18/Compliance-Risk-Management-Developing-Compliance-Improvement-Plans-515263