

South Africans, Cryptocurrencies and Taxation





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Introduction

Although Satoshi Nakamoto's white paper introducing the concept of Bitcoin to the world was first published a full decade ago, South African interest in cryptocurrencies was mostly confined to niche tech and finance communities. This all changed during 2017, when local interest in cryptocurrencies became stratospheric. In fact, over the past 12 months, **South Africa had the highest search interest in "Bitcoin" on Google for any region in the world**¹.

But beyond the interest, little substantive research has been done into how many South Africans are actually buying, trading and "hodling" cryptocurrencies, and why, and public understanding about how cryptocurrency behaviour is taxed. This research report attempts to close these gaps.

Through a multi-pronged investigation, we have examined three main themes:

Theme 1: Market Size

- How many cryptocurrency owners are there in South Africa?
- How fast is this market growing?
- What is the average holding size for cryptocurrency owners in South Africa?
- What are the demographics of cryptocurrency owners and users in South Africa?

Theme 2: Behaviour and Intent

- Why are South Africans buying cryptocurrencies?
- What tools are cryptocurrency owners currently using to track their portfolios and calculate taxes?
- Where do users buy, sell and store their cryptocurrency?

Theme 3: Tax and Regulation

- How high is local awareness of the tax implications of cryptocurrency investments (amongst both tax professionals and consumer investors)?
- What are the rates of compliance to these rules?
- What questions are tax consultants being asked about cryptocurrency?
- Are cryptocurrency owners currently paying taxes?
- How are cryptocurrency owners currently calculating the taxes they pay?

¹ Source: <https://trends.google.com/trends/explore?q=bitcoin> accessed 15 May 2018

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- What regulatory framework is likely to emerge for cryptocurrencies in the South African market?
- How will South African regulation match international regulation for cryptocurrency?

This space is changing rapidly, so all research should be understood as being accurate as of **May 2018**.

Hypotheses

As a starting point for our research, we listed the following hypotheses:

- Tax consultants do not have clear answers with regards to the taxation of cryptocurrency.
- Cryptocurrencies currently exist in a grey-area and, as such, are not taxed in terms of income or capital gains.
- South African regulation will likely align with South East Asia.
- Cryptocurrencies represent a new asset class to regulators and require bespoke regulation as such.
- Most cryptocurrency users are adoptions a 'wait-and-see' attitude toward tax; they are not currently paying tax on their cryptocurrency earnings but expect that they will have to in the future.

Methodology

A mix of qualitative and quantitative research methods were used. In general, quantitative research is better at asking "what" and "who" type questions (e.g. market size) and qualitative research is more suited to asking "why" type questions (e.g. intent).

Method	Type	Number completed
Online survey of cryptocurrency investors - this survey was circulated amongst communities with a high interest in crypto, the "crypto faithful".	Quantitative	173
One-on-one interviews with tax experts	Qualitative	4
One-on-one interviews with cryptocurrency holders	Qualitative	2

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Method	Type	Number completed
Online research incorporating Google Trends data and Alexa PageRank, as well as a general literature review	Secondary	-

Findings

1. Market size

Our best estimate is that there are about **550,000 - 650,000** South Africans who may be considered active cryptocurrency users, and that there are about **60,000** South Africans who invested any significant amount of money in cryptocurrency over the past year.

HOW DID WE GET THIS NUMBER?

Our survey indicated that **91.1%** of South African cryptocurrency users have used local platform Luno to buy or sell cryptocurrencies over the past year. Luno requires Know Your Customer identification and does not allow a single person to open multiple accounts. We can therefore assume a good one-to-one mapping between Luno account figures and individuals. Luno's account numbers are therefore a useful proxy for the number of South Africans who are using cryptocurrencies overall.

On November 30 2017, Luno announced that they had reached the **1-million** customer mark. They claimed then that the exchange facilitates over 2,000 BTC worth of transactions per day, with over 750 BTC worth of transactions occurring in South Africa². That means we can estimate that approximately **37.5%** of Luno transactions occur South Africa. Whilst the volume of transactions does not necessarily map onto the number of customers, it seems reasonable to use this ratio as an indicator. If we can therefore assume that 37.5% of Luno users are South African, we can guess that there were **375,000** South African Luno users in **November 2017**.

But things in the cryptocurrency space change fast. In an interview on May 11 2018, the Luno country manager Marius Reitz said that Luno is nearing the 2-million customer mark³. This would mean that the number of users have doubled over the past 6 months, and if South African users have followed this growth path, that would put the current estimate of South African users at around **750,000**. However, it is likely that Luno's growth has been disproportionately non-South African as it has expanded into new markets. An

² Source: <https://mybroadband.co.za/news/cryptocurrency/240404-how-many-customers-luno-has-on-its-exchange.html> accessed 11 May 2018

³ Source: <https://www.biznews.com/good-hope-project/2018/05/11/sa-crypto-exchange-luno-2-million-global-customers-uk-tech-award/> accessed 11 May 2018

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informal rule of thumb known as “Woo’s Law” estimates that global Bitcoin users double every 12 months⁴, which would put the current number closer to **562,500**.

Our survey indicates that 8.9% of South African cryptocurrency users aren’t using Luno, so we can revise that number up slightly to **612,563**.

Of course, this is merely an estimate; only Luno are positioned to confirm whether this number is accurate. Also, it is impossible to know what proportion of these users are truly “active”; many of them may be users who merely opened an account and never performed a trade.

As a sense-check, it is estimated that there are about 24-million Bitcoin users in the world⁵. 612,000 people would account for about 2.5% of the world’s Bitcoin users. But the South African Rand actually accounts for 0.25% of all BTC trades (in terms of volume)⁶. 0.25% of 24-million users would give us the much smaller estimate of **60,000** South African Bitcoin users. However, the impact of inequality (see appendix A below) and the relatively low per capita income of South Africans versus other top crypto markets may account for the discrepancy between this number and the estimate arrived at from the Luno figures.

60,000 people is a decent estimation of the number of South African users who have invested any significant amount of money into Bitcoin over the past year, however.

⁴ Source: <https://woobull.com/woos-law-of-bitcoin-user-growth-bitcoins-adoption-curve/> accessed 11 May 2018.

⁵ Source: <https://www.bitcoinmarketjournal.com/how-many-people-use-bitcoin/> accessed 11 May 2018

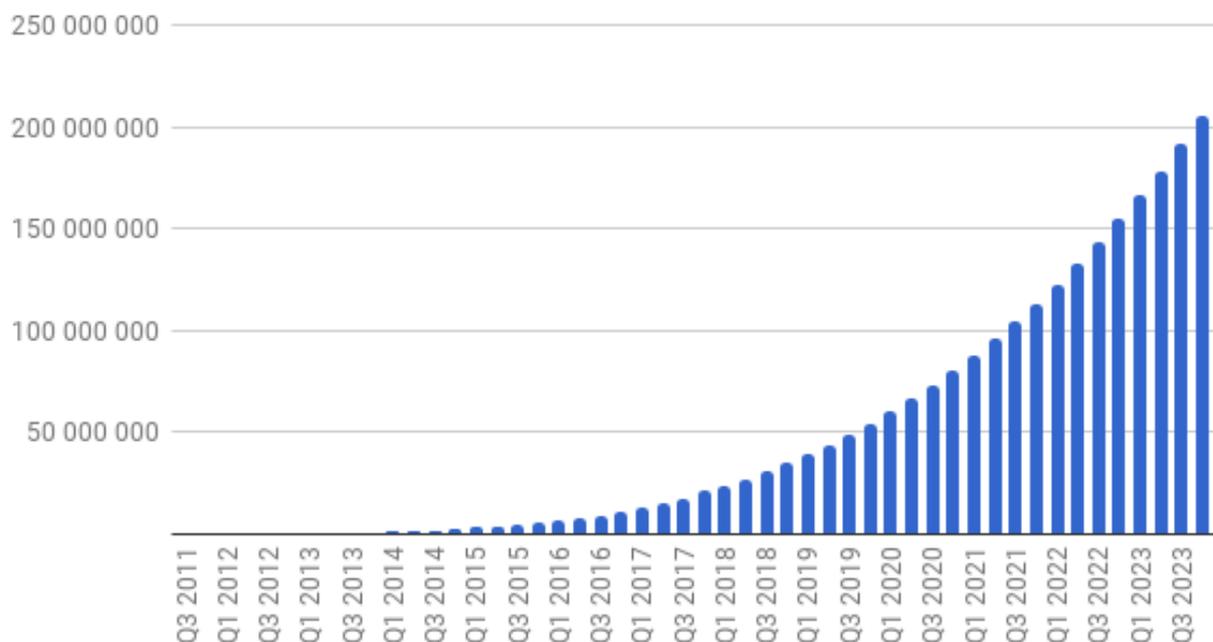
⁶ Source: <https://www.cryptocompare.com/coins/btc/analysis/USD?period=1M> accessed 11 May 2018

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2. Forecast growth

It is estimated that there are currently **24-million** blockchain users globally⁷. The growth between Q1 2017 and Q1 2018 was **86%**, a decline from the 93% growth seen between Q1 2016 and Q1 2017.

Number of blockchain wallet users worldwide (forecast)



The chart above shows the number of blockchain wallet users worldwide, according to Statista⁸. They have provided data until Q1 2018. The data has been forecast into the future by fitting the scatterplot to a 3rd degree polynomial trend line, which yields the equation $-687229 + 353409x - 43989x^2 + 2383x^3$. By this estimate, there may be 204-million blockchain wallet users by the end of 2023. This estimate predicts that the growth in blockchain users will continue to slow from its current rate of 86% over the past annum to a rate of 33% per annum by the end of 2023.

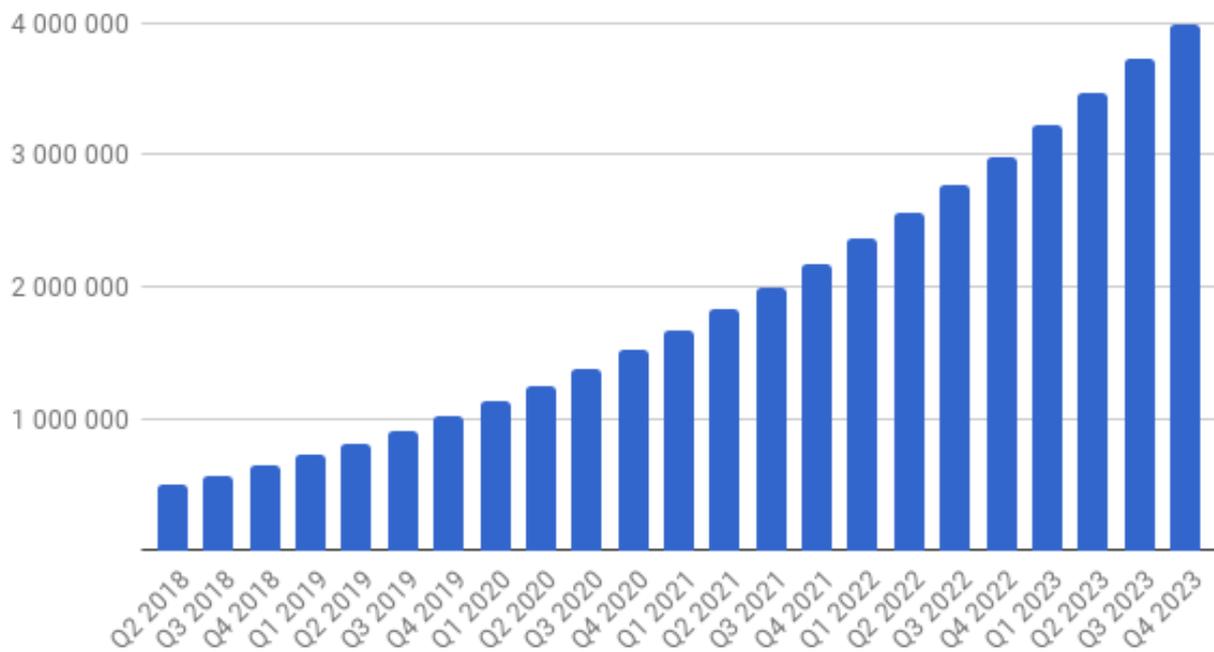
⁷ See <https://www.bitcoinmarketjournal.com/how-many-people-use-bitcoin/> for a slightly lower estimate, but not far off Statista's findings

⁸ Source: <https://www.statista.com/statistics/647374/worldwide-blockchain-wallet-users/> accessed 11 May 2018

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If the South African numbers follow a similar growth curve, we can project our estimate as follows:

Number of South African cryptocurrency users (forecast)



By this projection, there will be approximately **4-million** cryptocurrency users in South Africa by the end of 2023, which will mean that approximately **10%** of South African adults may be using cryptocurrencies.⁹

⁹ The 2016B AMPS survey estimated that there were 40-million South Africans over the age of 15 in 2016. By 2023, the youngest individuals in this survey will be 22 years old.

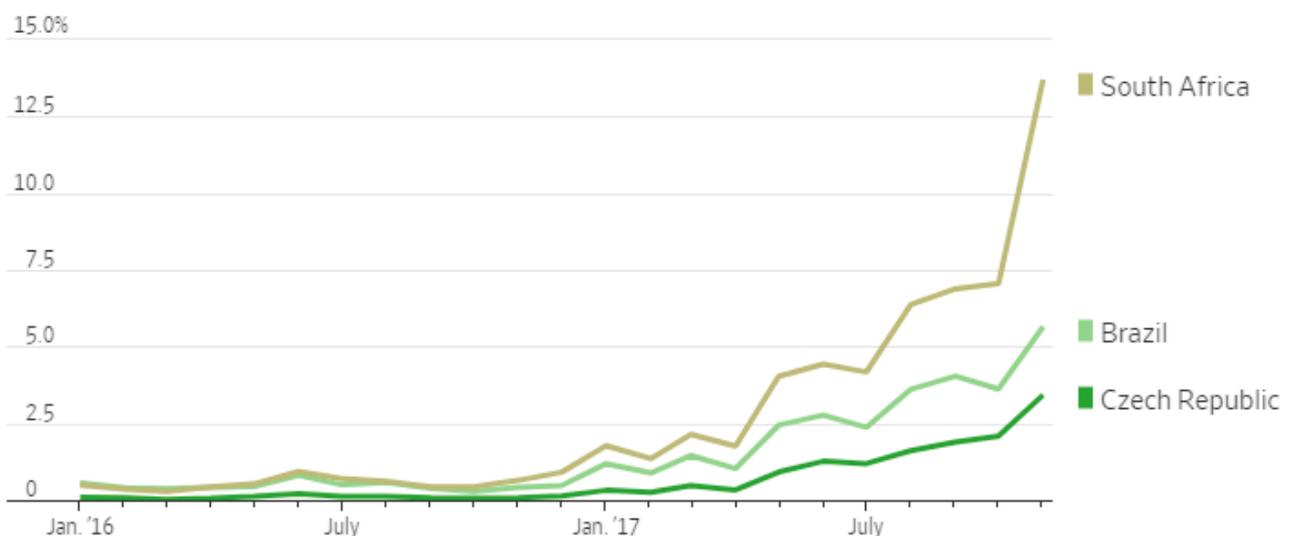
3. Motivations for buying cryptocurrencies

2017: the year of “get rich quick”

Due to a unique combination of domestic economic and political instability as well as the rapidly rising price of Bitcoin over 2017, growth in South Africa was unusually high. For instance, trading platform eToro reported that the number of new South African users speculating on the Bitcoin price on that platform rose by **671%** between January and November, dramatically surpassing the growth in other regions¹⁰. Growth coincided with major political events such as the firing of Pravin Gordhan as Minister of Finance in March and the downgrading of local currency debt to junk status in November.

Emerging Bitcoin

Bitcoin trading has surged in several countries amid political and economic instability



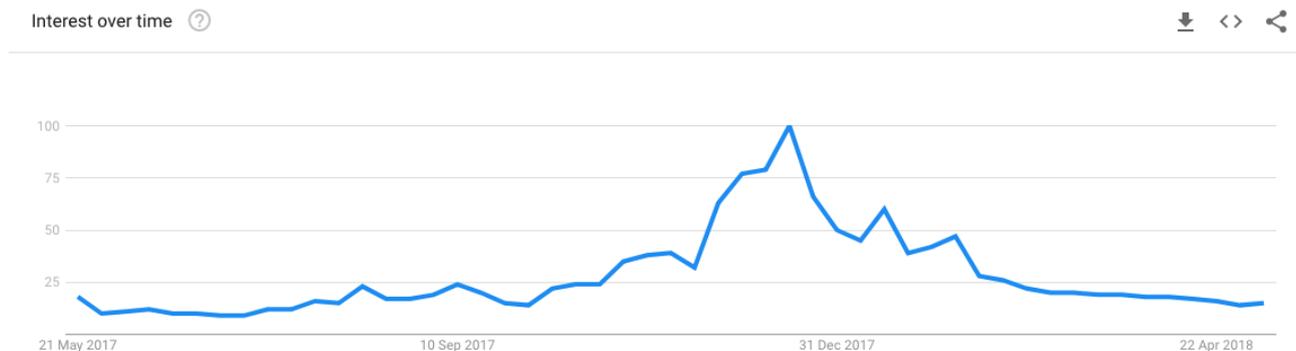
Note: Monthly growth rates
Source: eToro platform

Google Trends data from South Africa shows that search interest in the term “Bitcoin” continued to skyrocket until the price-peak around November-December 2017. Since then, interest seems to have dropped dramatically down to a level similar to September 2017.

¹⁰ Source: <https://businesstech.co.za/news/banking/218099/this-graph-shows-just-how-popular-bitcoin-is-in-south-africa/> accessed 11 May 2018

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Tax professionals we spoke to agreed that there had been a spike in investors who were driven by the desire for short-term profits last year, at the peak of the Bitcoin hype, often from people who hadn't previously shown interest in more traditional investment types like bonds and equities.



Google Trends showing interest for the search term "Bitcoin" in South Africa over the past 12 months

Right now, through Facebook and stuff like that, there's a lot of Forex traders, like make money from Forex Trading. A lot of people are all of a sudden aware of it. And then of course a lot of people have been all about Bitcoin and talking about Bitcoin. But the awareness is quite low of just how does it work, the whole Blockchain, that whole ledger system, even mining, people don't know the specifics. They just know that people have bought at a specific price, and sold at another price, and they made money. They also know that it fluctuates wildly. So that's why a lot of people stay away from it, that's what I'm seeing.

- Tax expert

Most people's primary motivation has been pretty much to try get rich quick. Not necessarily *get rich* quick, but make a quick amount of income, putting a little amount of money away high-risk and just see what happens. With the exception of maybe one client, I don't think anyone is seeing it as their long-term plan for financial freedom. Most people are just trying to make some extra money as a bonus.

- Tax expert

Another financial professional described that these fast returns were appealing not just to people who haven't invested before, but also to seasoned investors, because of poor market returns over the past few years.

[Traditional] markets at the moment are an abomination. We're not seeing the returns we're used to. I'm lucky if I get my clients between 6 and 8% after deductions. Gone are the days of those 21% returns. I think that's what's driving [crypto investors]. They want maximum gain in

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the shortest amount of time. That's always where I panic because I feel if it looks too good to be true, it possibly is. To me, crypto is timing.

- Tax expert

What are your main reasons for buying cryptocurrency?

172 out of 173 people answered this question

1	Long-term investment ("HODL")	137 / 80%
2	Learn more about the technology	79 / 46%
3	I believe cryptocurrency will replace the rand for most day-to-day transactions	69 / 40%
4	Make money in the short term (under a year)	62 / 36%
5	Anonymous/untraceable transactions	32 / 19%
6	Send money to other people	31 / 18%
7	Invest in ICOs	21 / 12%
8	High-frequency trading or arbitrage	18 / 10%
9	Other	8 / 5%
10	Participate in gifting circles like MMM	2 / 1%

Long term HODLers & professional curiosity

However, interest in cryptocurrency from many of these short-term profit seekers seems to have evaporated with the price decline. Today, the people we engaged with in local cryptocurrency communities mostly described themselves as being interested in cryptocurrencies as a long-term investment (self-described "HODLers").

It's very much for the future. I don't see it as a get rich quick scheme. A lot of people got into it because, look, here's something that's going up in value very quickly. And then they had the crash and now everyone is sitting around crying going oh, why did I do it? So for me it's all about the long-term game. I think it's going to play a more vital role for my children than it will for myself and my wife.

Crypto is probably about a quarter [of my portfolio]. I definitely think it's going to grow. I believe in crypto and I'm sure it's just going to grow.

I believe blockchain will be a fundamental technology of the future internet. I see it as having the chance to invest in TCP/IP when the internet first came about.

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A common story amongst the investors we spoke to suggests that they were initially driven to buy Bitcoin because of curiosity about the blockchain as a technology, and that they have subsequently come to rely on it as a long-term investment and emergency savings fund. The people we spoke to described themselves as early-adopters who like new technology in general.

It was quite some time back. Myself and my wife were on our way to work, listening to Kfm, the radio station, and we heard the morning DJ, and they were talking about digital currencies and they mentioned Bitcoin. And it just intrigued me. I got to work and I went to go and Google it, and that's when it started. That was probably about 6 years ago. To be honest I didn't have any hope for it, like "it's a fad". I was one of those people who like to get into the new stuff. I still remember I made a purchase, and my wife got the SMS, and she said, "What is this Bitcoin you're buying? What are you wasting your money on?"

It was just interest. I didn't really have a plan.

[From one of our tax experts, discussing why he wrote an article about Bitcoin in 2014] I just like interesting things. I'd read about it, and because I'm a tax guy and a bit of a nerd, if somebody tells me anything I always think, what are the tax implications of that. And at the time, not even in the U.S. were they discussing the tax issues. It was just curiosity, really.

[A friend] told me about it. Then I started researching the subject. I am an engineer as well, so the subject fascinated me, and the technology. So I bought into it. I am fascinated by the technology, and I'm learning about the underlying technology, the blockchain. I use cryptocurrency to test the safety aspects of it, test the speed of different cryptocurrencies and how fast those transactions are, the transaction fees and so on.

Looking at the most common professions of cryptocurrency investors, we see a strong over-representation amongst IT, software and financial-services related industries.

One financial professional confirmed that people buying crypto before 2017 were mostly driven by interest in the technology.

Before 2017 my exposure to the space was the clever people around me that coded or played around with it, and for them it was more of an experiment or passion project, or just being involved in something new or awesome. Really it only became mainstream as South African media started talking about it, Google searches in South Africa started increasing. So most individuals that we spoke to really just got involved because everyone else was doing it, more than having a scientific or mathematical interest in the space.

- Tax expert

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Which industry do you work in or are most involved with?

173 out of 173 people answered this question

1	Information Technology & Services	26 / 15%
2	Financial Services	15 / 9%
3	Marketing & Advertising	13 / 8%
4	Software	12 / 7%
5	Banking	9 / 5%
6	Design	6 / 3%
7	Education Management	5 / 3%
8	Accounting	4 / 2%
9	Civil Engineering	4 / 2%
10	Computer Hardware	4 / 2%
11	Mechanical or Industrial Engineering	4 / 2%
12	Computer & Network Security	3 / 2%
13	Construction	3 / 2%
14	Health, Wellness & Fitness	3 / 2%
...	Other	62 / 36%

One user we spoke to only became interested in cryptocurrencies about a year ago, but he has already started running courses for Blockchain Academy part-time, and believes that within the next year, he will be working full-time in the cryptocurrency space.

I think it's going to take over every aspect of our lives. There's already a massive demand for blockchain engineers, blockchain employees. I think I read somewhere that there are seven vacant blockchain positions for every available engineer or developer. So the demand is already picking up massively. That's definitely my future.

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High-frequency traders

How many times have you bought or sold cryptocurrency over the past 3 months?

172 out of 173 people answered this question

1	1-3	58 / 34%
2	More than 10	45 / 26%
3	4-10	41 / 24%
4	None	28 / 16%

By our estimates, about 10% of South African cryptocurrency investors are involved in high-frequency trading or arbitrage.

One participant we spoke to said that he initially tried short-term trading but lost money.

I'd say [I'm looking to hold investments] between 1-5 years. I've tried my hand at short-term trading, but I've only lost money. I'm bad at that, I'm way too emotional. So I've made a conscious decision now that I will make much [fewer] trades, and those I make will be for the medium to long term.

Emergency funds and goal-based savings

Even amongst cryptocurrency users who primarily intend to hold cryptocurrencies for the long-term, their cryptocurrency holdings had effectively functioned as an emergency fund for unexpected expenses. One investor, for instance, withdrew money from his cryptocurrency holdings four times in the past year for emergencies.

It's almost become like an emergency fund. You know when those unforeseen expenses rock up and come about, and it's like: "Damn, I need some cash and I need it yesterday! Okay, let's look at the Bitcoin pool and let's see what Bitcoin's doing at the moment and can we liquidate some, and is it worth it?"

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One investor plans to invest in cryptocurrencies until he has enough money to buy a house, and then withdraw all of his investments in one go.

I have a clear goal in mind. I want to invest in other asset classes like property. So once I reach that goal I'll cash out probably all at once.

One survey participant who has more than R1-million in cryptocurrencies, says that their aim is “to make enough money to leave South Africa and resettle comfortably.” Other examples of goal-based saving behaviour we uncovered involved international holidays and supplementing retirement savings.

Untraceable transactions

The perceived untraceable nature of Bitcoin made it attractive to some of our sample group for making transactions. Two people we spoke to mentioned that they prefer to receive extra income (from friends paying them back, or part-time work) through Bitcoin, because it was easier to “hide from the taxman”. One survey participant said that they receive their entire salary in Bitcoin.

When a friend owes me money then I'll usually ask for it in Bitcoin. It's a privacy issue. I can hide from the taxman that way.

In our survey, **19%** of participants admitted that anonymous and untraceable transactions were a primary motivator for buying cryptocurrency. Another **18%** mentioned that they use cryptocurrencies to send money to other people. We found that cross-border payments were the most common use-case here.

We found extremely few cases of people paying for goods and services using cryptocurrencies, except between friends and within cryptocurrency communities (one participant, for instance, bought a graphics card from someone he'd met at a cryptocurrency meet-up group, which he uses for mining). Participants we spoke to did say that they expected this to change over time, with a full **40%** of survey participants saying that they believe cryptocurrencies will replace the rand for most day-to-day transactions.

It's the future and I'll be using my cryptocurrencies to partake in the ecosystem.

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4. Portfolio size and diversification

Almost equal numbers of participants could be classified as “crypto dabblers” (holdings of between R5,000 - R20,000) and “significant middle-income investors” (holdings of between R150,000 - R500,000).

What is the total value of your cryptocurrency holdings in South African rands?

170 out of 173 people answered this question

1	R150 000 - R500 000	33 / 19%
2	R5 000 - R20 000	33 / 19%
3	R50 000 - R150 000	28 / 16%
4	R20 000 - R50 000	24 / 14%
5	More than R1-million	22 / 13%
6	Less than R5 000	21 / 12%
7	R500 000 - R1-million	9 / 5%

For **55%** of participants, cryptocurrencies represent 10% or less of their total asset base, indicating that they regard the investment as speculative or risky. But a full **19%** of users have committed the majority of their savings and investments to crypto.

What proportion of all of your savings and investments is in cryptocurrency (compared to things like unit trusts, savings in a bank account, equities etc.)?

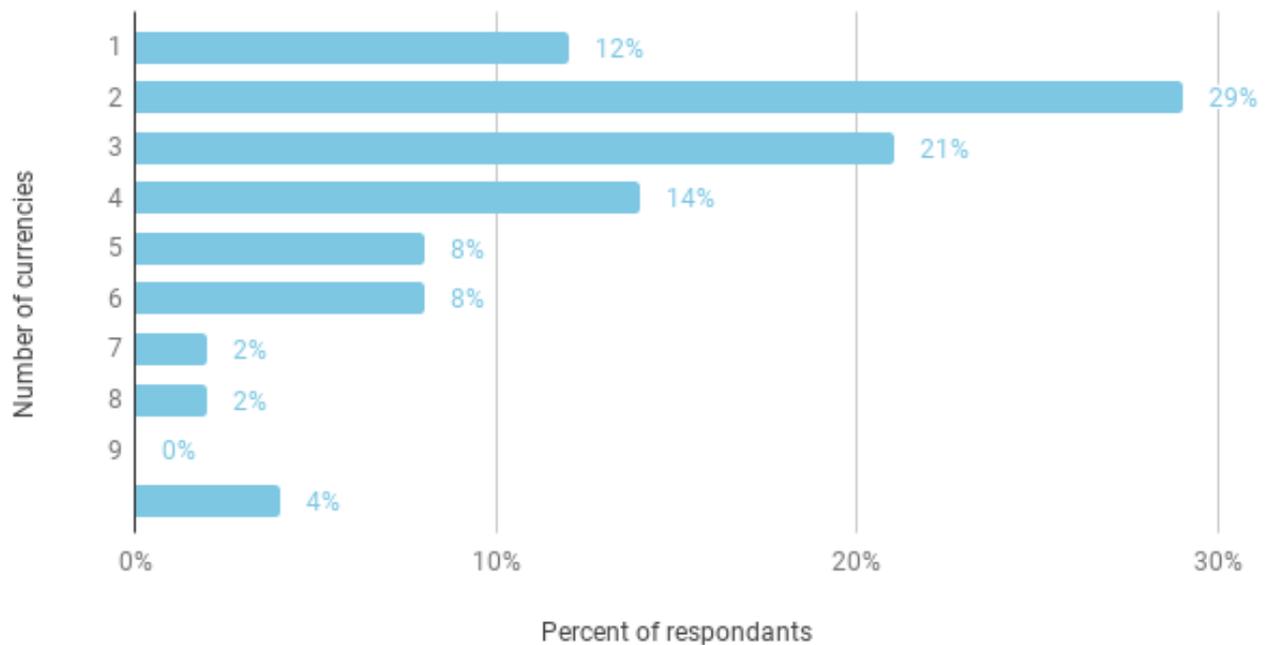
170 out of 173 people answered this question

1	Under 5%	67 / 39%
2	Cryptocurrency represents most of my savings and investments	32 / 19%
3	5-10%	27 / 16%
4	10-30%	23 / 14%
5	30-50%	21 / 12%

The majority of survey participants owned multiple cryptocurrencies, with **24%** owning 5 or more different coins.

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How many different cryptocurrencies do you own?



In addition to the ones we provided in the survey, **19%** of participants listed other altcoins. This is a segment that could be considered a “highly diversified” group. In these “other” responses, Monero, Doge and Cash were mentioned most. **4%** of the total survey respondents saying they had “too many coins to mention”. As an example, one “other” response listed the following coins in addition to Bitcoin, Ethereum, Ripple, Bitcoin Cash and NEO:

xvg, ada, bnb, xmr, etc, gnt, cvc, dash

It seems like the motivation for diversifying in crypto is mostly about investment returns, actual utility was never mentioned amongst participants.

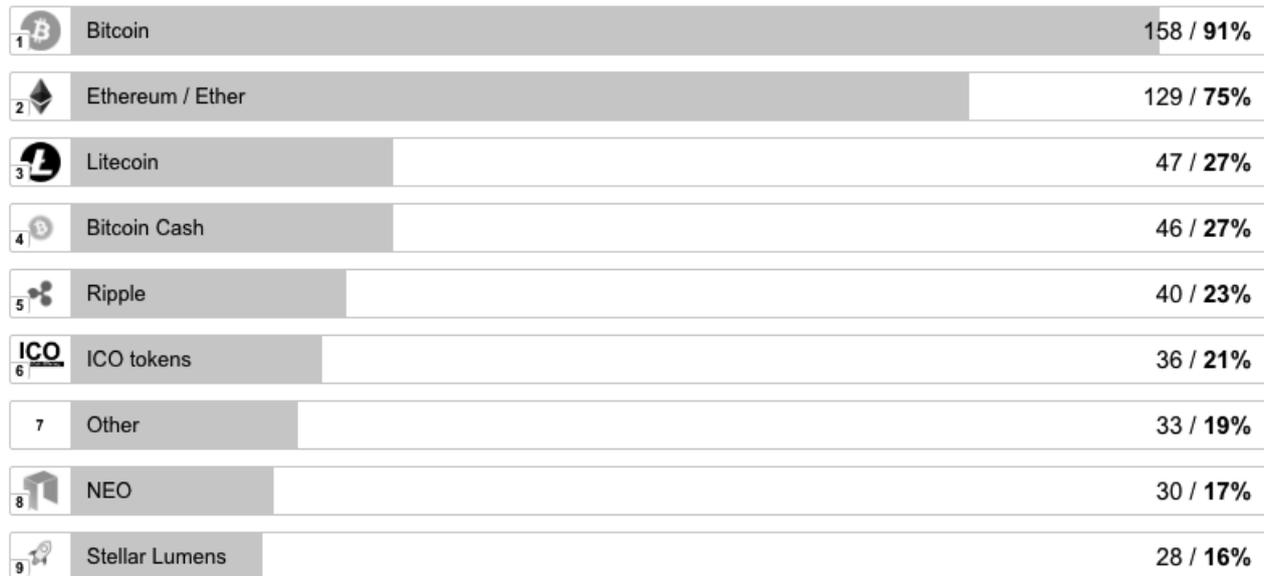
Of late, I think I've stayed away a bit from Bitcoin just because of where the price is at the moment. It's become very expensive to mine and all that. So I've gone for the less known cryptocurrencies like ETH and Litecoin and Doge.

The most recent coin which I've added to my portfolio is EOT. I don't know why I did, I just did! A lot of it had to do with their marketing strategy, you know, they're doing the airdrops on a Friday where they're giving you free coins into your wallet. I love freebies, who's going to say no for the freebies. Taking those coins, and all the various coins have a place on the market. For

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Which cryptocurrencies do you own?

173 out of 173 people answered this question



me, it's getting those coins because they're a lot easier to get than Bitcoin. I mean exchanging them, and trading those coins, and eventually trading up to Bitcoin.

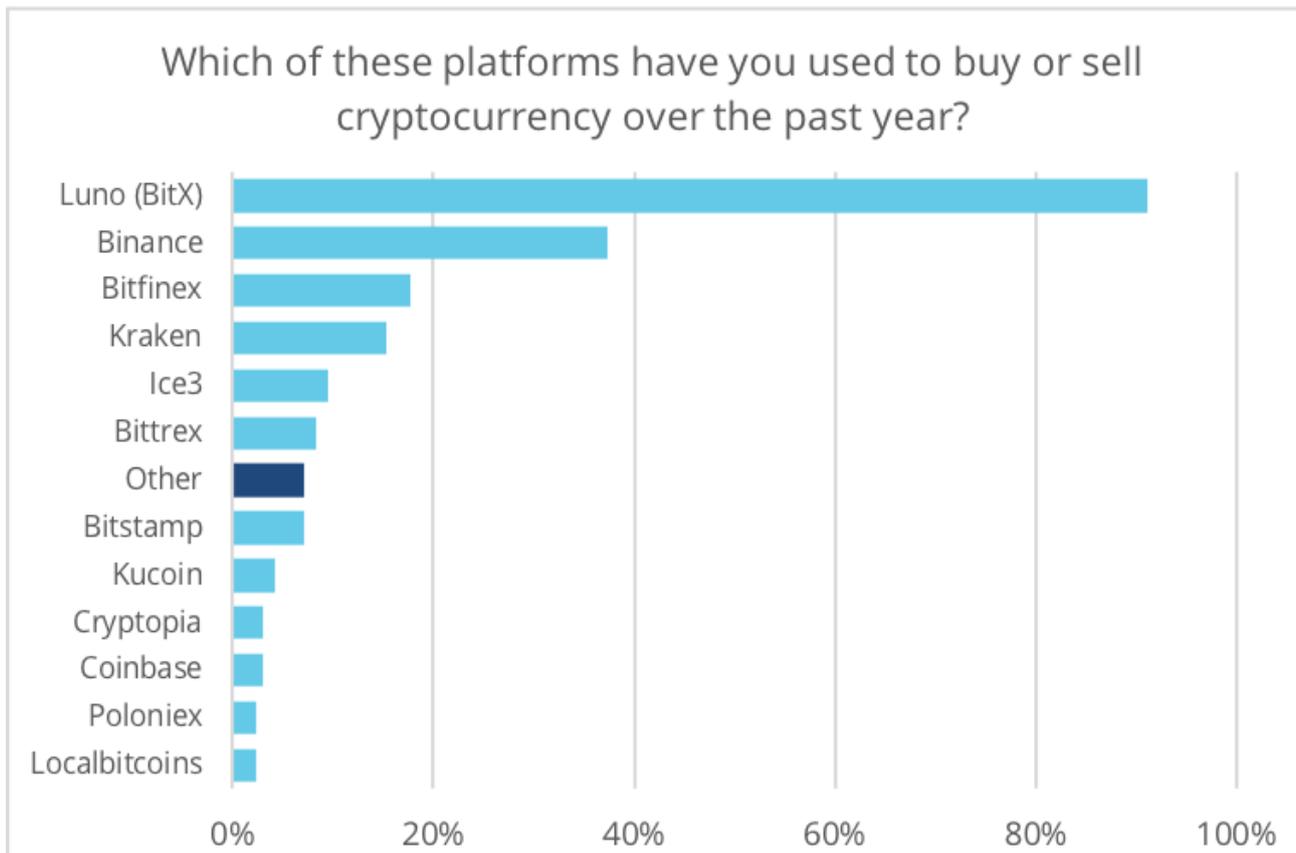
Based on our one-on-one interviews, it seems that most crypto investors don't seem to realise that technically every time they buy a new altcoin with Bitcoin, this is probably a capital gains event, as described by one of our tax specialists:

From a taxation point of view, if you look at things on a very technical level, essentially if I own Bitcoin which is a crypto asset, and I sell it for Ethereum which is a crypto asset which is a different asset class, essentially that's a taxation event. So I would like to see each one of those pieces of stock or whatever you want to call it have a different indication. What a lot of people tend to see, is crypto just as one thing, i.e. almost like an exchange traded fund or a fund of crypto, they try and make it one thing, but they are all different asset classes.

- Tax expert

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5. Platforms, exchanges, apps and tools



Luno is by far the most common platform amongst local cryptocurrency users, with major international platforms making up most of the rest of the list.

The most painful thing for users about crypto was the fact that they had to manage too many exchanges, wallets and platforms.

Trading/investing is done across multiple exchanges. This means duplicating security procedures each time you sign up for a new exchange.

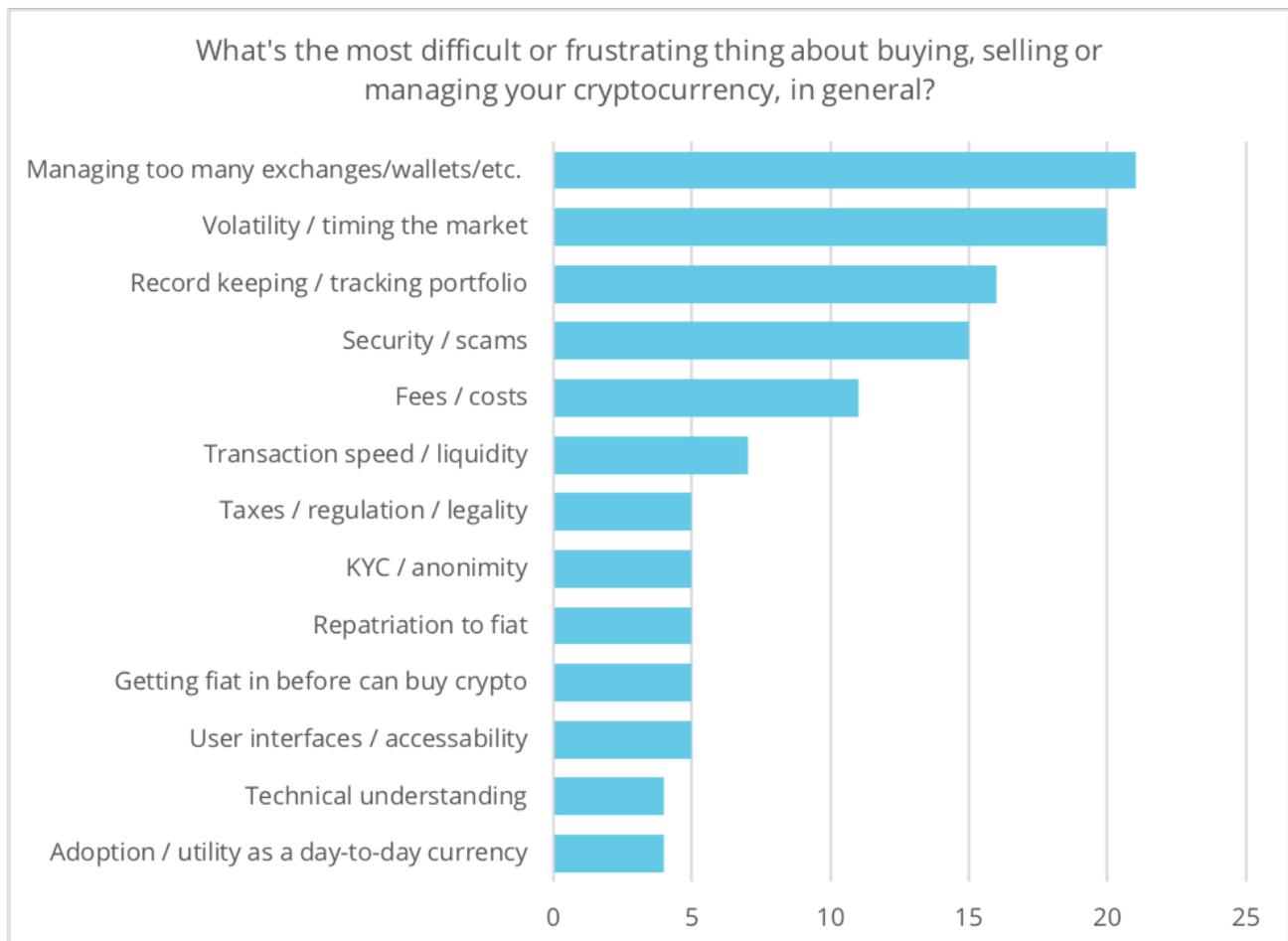
That you need to buy in Luno and then move it to another exchange to trade it.

It would be nice to buy and sell all the currencies on a single platform with a low cost on transaction fees.

Having to purchase BTC on a South African, and transferring to exchange where I can buy a wider variety of currencies. It's easier to buy mining contracts, or LTC and Doge on eBay via PayPal, and then trade on international exchanges.

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Users commonly said that the need to **keep track of their total cryptocurrency portfolio** across multiple exchanges and wallets was a major pain-point, particularly around tracking gains and losses. A few users have tried portfolio-tracking apps for this purpose (the only one we found that was quite commonly known was Blockfolio) but most people either do not use an app at all, or track their portfolio manually using Google Sheets or Excel. People didn't like to use the apps because they still required trades to be entered manually, and so they did not offer sufficient value to compensate for the additional perceived security risk.



This was a major source of irritation and frustration for users.

Around **5%** of users said that uncertainty around taxation and regulation was a major concern for them, listing concerns like:

Not fully understanding how it's regulated, particularly for international payments (which is what I use it for)

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[Maintaining my Excel spreadsheet] is time consuming, I must admit. There have been a couple of apps that have been in development. There was an app that was released where you can add your different wallets and it can track it for you, but I'm a bit skeptical giving so much information away. Especially when you look at all the security breaches and everything else that's happened. So I prefer old-school. I spend my time in front of my laptop and I use my Excel spreadsheet.

Do you use any of these tools to keep track of your crypto portfolio?

146 out of 173 people answered this question

1	Spreadsheets (Excel / Google Sheets)	77 / 53%
2	Blockfolio	48 / 33%
3	Other	40 / 27%
4	Crypto Pro	3 / 2%

There's not really an app that can give me a snapshot of my investment portfolio, an overview. There is Blockfolio and so on, but having to input every trade manually is quite a lot of trouble, so I'd like something that works with APIs that can check my portfolio automatically and give me a snapshot, and when I do a trade I don't have to add it manually.

[Biggest frustration:] Manually tracking growth. I want an automated Blockfolio working with exchange profile API.

[Biggest frustration:] Tracking the gains/losses when moving between exchanges and/or between currencies.

[Biggest frustration:] Tracking prices paid at purchase of cyptos.

[Biggest frustration:] Not having kept good records in the past, and now trying to get accurate idea of portfolio.

Finding a good solution for secure storage was also a source of anxiety and frustration for users. A significant portion of our participants did not only store their crypto on the exchange (although a full **75%** of participants leave at least some assets there, to facilitate fast buying and selling).

Security and access to the private keys were mentioned as the strongest drivers for moving crypto assets off the exchanges. Also, people were never sure who to trust.

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How do you store your cryptocurrency?

172 out of 173 people answered this question

1	On the exchange where I bought it (e.g. Luno)	129 / 75%
2	On a software wallet (e.g. Bread, My Crypto Wallet)	63 / 37%
3	On a hardware wallet (e.g. Ledger)	51 / 30%
4	On a paper wallet	18 / 10%
5	Other	5 / 3%
6	I'm not sure	0 / 0%

I make sure that I store the minimum in exchanges, only which I think I will sell within the next few months. The rest I keep on a paper wallet and a MyEtherWallet for which I have the private keys. I always make sure that I have the private keys.

I'm never sure what's authentic and what's a scam.

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6. Perceptions of cryptocurrency taxation amongst investors

The majority of participants (**62%**) are aware of the fact that cryptocurrencies are subject to capital gains tax.

A full **38%** of users believe that you only “need to pay taxes” when you sell the cryptocurrency back into rands. Technically, if users sell a cryptocurrency for a different cryptocurrency, or use it to buy goods and services, this should also trigger capital gains events. Because crypto exchanges do not report to any tax authorities, it is up to taxpayers to declare the details of transactions that take place between different cryptocurrencies.

However, a common belief we encountered amongst investors is that SARS can only track returns in fiat currency, so keeping assets in cryptocurrencies might be an effective way to hide wealth from SARS.

Most investors that we spoke to mostly seemed aware that this behaviour was more about what they can get away with, and understood that the law actually requires them to declare all gains regardless of how they are made. They trust to the fact that SARS “doesn’t understand this area yet”. In fact, this ability to “hide from the taxman” is, for many crypto users, a core reason that they prefer to invest in Bitcoin.

What is your understanding about whether crypto is taxed in South Africa?

173 out of 173 people answered this question

1	SARS requires you to pay taxes on cryptocurrencies as if they were investments (i.e. you should pay Capital Gains tax)	107 / 62%
2	You only need to pay taxes when you sell the cryptocurrency back into rands	65 / 38%
3	SARS requires you to pay taxes on cryptocurrencies if you buy and sell frequently (i.e. you pay Income Taxes)	58 / 34%
4	Legally you should pay taxes on cryptocurrencies but this is unenforcable	33 / 19%
5	I don't know	23 / 13%
6	SARS has no regulations that deal with taxing cryptocurrencies	15 / 9%
7	SARS requires you to pay taxes on cryptocurrencies as if they were a foreign currency	5 / 3%

[The most frustrating thing about managing my crypto investments] is that I've got to hide it overseas. Look, there's a lot of uncertainty at the moment with crypto. You know SARS saying

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they're going to tax it, then saying no they're not going to tax it, and then saying you know what, the first 33,000 is going to be tax free and things like that. For a lot of my crypto, I use a lot of international sites: Coinbase, Xapo and all of those. And obviously when I do want to liquidate some of it I bring it back in via Luno. So ja, trying to keep it under the 33,000 that you're supposed to have as a tax free investment, you know, stay under the radar. I think that probably makes crypto even worse off. Because it's all undercover stuff and it's all below the desk. I think that's why crypto has a bit of a bad rep.

It's interesting to note that this statement above reveals a likely misunderstanding of the tax free savings exemption (which does not apply to cryptocurrency investments), despite the fact that this user works in financial services (the actual capital gains exemption is R40,000). There is a lot of legitimate confusion about what is allowed by the law.

Some participants feel it's inevitable that tax enforcement of cryptocurrency investments will become more common:

Until SARS can put something down that's concrete, I'm going to stay under the radar. I don't think they have any policy yet. So as I said, my crypto portfolio, 99.9% of it is over the sea. I think it eventually will come there [where I have to include crypto in my tax returns]. It's inevitable. Look, it's government. Where they want money they're going to ask for it, and I don't think you're going to be able to hide from that.

Whilst others describe *schadenfreude* in feeling like SARS is "in big trouble", because it will always be difficult to enforce:

I think SARS are confused, they don't know what to do. They don't even know if it's classified as Capital Gains or as Income Tax. They're going back and forth. One day they're saying the one thing, the next day they're saying the next. It's not only SARS, it's worldwide. I think that they know, and I know it, that I can do whatever I want, and if I transfer Bitcoin to my paper wallet I can just as well declare it as that I transferred it to someone else, or something else, or to a machine or whatever, and there's no way of them proving me wrong. My view is that they're in big trouble, and they know it. And they're going to have to totally rely on the honesty of the tax payer. There's nothing that's going to physically prevent the tax payer from lying to them.

Yes, [I do anticipate having to pay a tax bill when I withdraw sell crypto for fiat], but not nearly as much as SARS think I would be. There are many exit strategies which I think are impossible to plug for SARS which I'll probably make use of in a limited way. I won't just try to launder all the crypto that I have, because I think it's dangerous, so I'll try to keep within the legal boundaries as far as I can. But I will push those legal boundaries as far as I can. Let's say that I open a Luno exchange for my family: my wife, my mother, my father, my parents-in-law, everyone that I know who's not interested in crypto at all, so I can open Luno accounts through them, and I can tumble the Bitcoin to them, so not transfer it directly but through many addresses and other cryptocurrencies, and even other asset classes, transfer the Bitcoin through there back to their Luno accounts, and do a little bit of trading in their name, and then cash it out under the

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minimum taxable rate in their names, and then channel it back to me. That's one way. I think there are many others as well. You can also use it: Takealot accepts it. You can... I don't want to say launder it but, let's say, effectively manage millions of it.

This same participant intends to declare a large loss on his cryptocurrency investments in his next tax return, by not listing all transactions.

Did you declare your crypto investments on your last tax return?

172 out of 173 people answered this question



10% of Bitcoin users declared crypto investments on their last tax returns (some of this is due to the fact that many people only became crypto investors in the past year), and would have had no activity to declare in the previous tax year.

A much higher percentage intends to declare them on their next tax returns, but a full **52%** do not. This means it is likely that a high proportion of our participants intend to engage in a form of tax fraud in the next tax year. Because of social desirability bias, we can expect that the true figure is even higher.

Do you intend to declare your crypto investments in your next tax return?

171 out of 173 people answered this question



A few participants did mention that the lack of clarity about cryptocurrency taxation did make them feel anxious.

I think the taxman is the one person that you don't want to get on the bad side of. If I don't need to claim, then I just don't, and I don't try to make up claims. It just doesn't work out.

My understanding is that [SARS] don't really have any rules yet. Look, as far as I know, there's nothing that's concrete. They're themselves not sure which way they're going. I'm playing it safe.

7. Perceptions of cryptocurrency taxation amongst tax professionals

Levels of comfort advising around tax and cryptocurrency

Two of the tax and financial planning experts we spoke to feel like they aren't confident they have a clear idea about the tax regulations around cryptocurrencies, and had not themselves bought any cryptocurrencies.

The first expert said they are asked about crypto by their client base "all the time", but that they refer questions to a friend of theirs.

Especially a lot of my younger clients, they're way more into the crypto. I'll be honest, it's not my area of expertise. I don't feel I have enough of a grip on it to have an opinion. I'm very traditionalist and I'm a conservative by nature in terms of investing profile. So I personally shy away from it. Those that are keen, I say, "look it's where the world is moving." I'm not against them having a small percentage of their portfolio there, to dabble, but if they come to me for advice I've got my crypto guys that I refer them on to, I'm not comfortable enough to advise them. And especially now, when SARS is looking to tax crypto. I'm quite interested to see how they're going to get there.

The person that they refer clients to is not a registered financial planner or tax professional, but rather a friend who has been investing in cryptocurrencies for a while and has "made quite a lot of gains in that area".

The second expert said that they have never had a client ask them about cryptocurrencies. This planner focusses on middle-income individual and small business clients in Johannesburg, which is similar to the client base serviced by the first tax expert, so it is unclear why their experiences have been so different. The second planner did mention that they specialise in black small business owners.

Buying and selling. That one is pretty clear. As far as people buying and holding it... tax is so complicated so I'm not too sure [what the tax rules are]. I could go and read up on it. I do know that at the moment, SARS did issue some recent media statements where they said that they would be clarifying the rules on cryptocurrency.

The second expert also had a friend who he relied on to stay abreast of developments in cryptocurrencies.

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I'm a Christian. We have these CELL groups. There's a guy in our group, he's a software developer. He's bought and sold Bitcoin.

Both of these experts said that they aren't convinced that cryptocurrencies are a good long-term investment, and they regard most of the activity happening in the space as being highly speculative, and risky.

[I would not recommend that people invest in crypto because of] volatility. And because I don't really understand it. So it would be very speculative. You know, when I was 17 I read a lot of Warren Buffet, and he said, don't invest in something you don't understand. And I can't really understand this thing. Even the graphs, they show that it just moves so wildly. But I do listen to a lot of podcasts, and they say that a lot of people aren't really trading with the cryptocurrencies, they're speculating on them.

The third and fourth tax experts said that they do feel confident that they understand the evolving framework, and are cryptocurrency investors in their personal capacity. Both of them have actively advised clients around making cryptocurrency investments.

A lot of people have asked me is it a good time to invest, or have just asked me my opinion on Bitcoin in particular. I find most people haven't really asked me about other cryptocurrencies until I've brought them up. Some people who don't really know much about cryptocurrencies at all ask me is it a scam, can I get rich from doing that, etc.

Both of these experts said that it was the minority of their clients (under 10%) who had brought up crypto investment with them. The fourth expert said that he's starting to see some of his business clients investing in crypto, in addition to individual clients.

The more advanced clients, clients who have businesses where those people have more of an appreciation for the space or they're more aware of the space, they essentially use profits within their business to use it as an investment, so they essentially said well we're sitting with money on our balance sheet, and our money could be sitting in crypto. So at the moment, it was more diversification, or more exposure to different asset classes. The majority of businesses just follow that approach. So it's not an approach of let's get exposed to blockchain or to the technology, to help our business models or our business case, it's just an investment into a space with spare cash because we believe that the return on investment would be better.

Opinions on cryptocurrency taxation

All of the tax experts said their clients are not raising taxation of their crypto investments.

Surprisingly few people have asked me about tax implications, so that's also something that I bring up with my clients that I know have crypto portfolios.

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At this stage I don't think many people are aware that it's coming. Being in the financial services industry, I obviously receive all of the buzz a lot earlier. At this point, it hasn't even been mentioned by anyone. I think that's a driver also in crypto: you can sort of get away from the tax. So none of them have brought it up [how their cryptocurrencies will be taxed].

This aligns with our investor survey findings, where only **11%** claim they have discussed taxation of cryptocurrencies with a tax specialist or accountant.

Have you ever done any calculations to work out how much you should pay in taxes on your cryptocurrency investments?

169 out of 173 people answered this question

1	I've never done these calculations	111 / 66%
2	I made a spreadsheet	35 / 21%
3	I asked a tax specialist / accountant	18 / 11%
4	I used an online calculator or app	8 / 5%
5	Other	3 / 2%

Similarly to the investors themselves, tax experts identified that relying on tax payers to honestly self-report their activity is likely to remain the status quo in the short term, and that they anticipate many investors to not declare their gains.

If it's not declared, then you would just have to see if SARS on an audit basis would find the cash that was deposited. Then the investor would have to explain where it came from. But unless they're audited, the investor would have to declare it.

I don't see how [SARS is going to tax cryptocurrencies]. It's going to be on a capital gains basis at this point I see, because I don't know how they're going to tax the dividends received. At this point I'm sure they're going to try tackle the CGT and that's going to, from my little opinion over here, be very hard for them to monitor because it's going to require transparency on the taxpayer's side. The system isn't monitored at this point in time, unless they are planning to put monitoring controls in place, which then defeats the whole point of crypto, kind of like what they did in China, I don't know where this is going to go here.

One expert said they view this behaviour as being in line with a general decline in tax compliance amongst her clients, driven by resentment about the state not providing services used by the middle-class, and anger about corruption.

I personally feel it's the general feeling on the ground [taking a "wait until I'm audited otherwise don't declare" approach]. When it comes to SARS, South Africans are embittered. My general

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average client's attitude, especially your middle class, I almost call them the double taxed, because we are taxed for general public services that then we cannot use because they don't function. My middle class clients are killing themselves to keep children in private schools, are paying exorbitant fees on medical aid because they cannot end up in a state facility, they are contributing to retirement annuities because state retirement funding is... you can't even factor it into your equations it's so small. So I think there's a begrudging sense when it comes to tax that yes, wherever I can screw the taxman I'm going to try, because well, I pay my tax and I still have to pay for security as well, the police force doesn't work. This is my average client's number one gripe across the board, it doesn't matter who I meet, they all say the same thing.

Risks for tax professionals

Tax professionals are concerned about clients not reporting their cryptocurrency investments accurately, because this represents a significant risk for them.

For us, our integrity in the way that we do things are very important, i.e. our business name. We've all got tax practitioner numbers and we all have our bodies that we report to or belong to. So I belong to the South African Institute of Chartered Accountants., some people belong to the Chartered Institute of Management Accountants, and on a personal level, because you need to belong to a body to have a tax practitioner number, we could all personally suffer loss by our designations being taken away if we know about something [in a tax return] and we do something different. So on a human level, we won't do that. On a company level, because we also have one platform, if we do something that's incorrect the brand could suffer, as well as if SARS sees that Creative CFO as a firm passes dodgy types of tax entry, all of our clients would also be flagged to see what's going on.

If you look at professional indemnity insurance, the number one litigation that the insurance pays out on is essentially being sued for wrong tax advice or tax advice that is given but something went wrong, so from a practical point of view we always want to give our clients the best advice with the full disclosure of the risk that they face if they do something, on a piece of paper, so that we're not liable for that submission.

I don't have any clients who say they'd rather not declare some big offshore investment and rather wait to see what happens. Anyone who did say something like that I would tell them that they should just do it properly, otherwise I probably wouldn't do their return for them anyway. It's obviously completely possible that I might have done returns for people who just 100% didn't mention those assets to me in which case I wouldn't know about it, but anything I know about I have to advise people to do the right thing, and if they don't do the right thing I have to not help them.

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Data wrangling is a major pain point

56% of the individual investors we interviewed do pay someone else to do their tax returns.

Have you ever paid anyone to help you complete your tax returns (not just for crypto, but in general)? This would include apps like Tax Tim or seeing a tax accountant.

162 out of 173 people answered this question

1	Yes	91 / 56%
2	No	71 / 44%

For many tax professionals, the hardest part of their job is dealing with disparate and messy data sources that clients send them (for traditional investments and spending). We even came across one tax practitioner who had developed their own Python script to extract data from PDF bank statements so that it could be entered into a spreadsheet. They told us that, once the data is well-formatted, completing the actual tax calculations and submitting the tax return are quite simple.

All of the practitioners we spoke to used a combination of specialist software packages (including Greatsoft, AtWork, and Taxware) which link into the SARS eFiling back-end, the SARS eFiling calculators themselves, as well as using complex custom spreadsheets developed in-house. Interestingly, the main reason specialists often prefer custom spreadsheets is that it gives them greater control over the **presentation** of the information, so that they can create beautiful reports for their clients (particularly seen as important to justify the high fees paid by corporate clients). As one practitioner said, "it looks less lazy".

Whilst this results in re-entering information in multiple places, some practitioners said this "double-checking" helped them to feel confident that the calculations were correct.

Creating a paper trail

When it comes to including cryptocurrencies specifically in tax returns, the major concern that tax professionals have isn't just getting the data into a format that is easy to include

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in their complex spreadsheets; it's in building up a body of supporting documentation to include with the tax return that will look legitimate to SARS.

When you do tax returns you need supporting documentation for what you need to do, so that supporting documentation would need to come from 3-4 different cryptocurrency exchanges and you would essentially have to pull the data into such a place where you can start using it to make the calculations that you need to make. I think it's obtaining the data that's going to be a challenge. Even more so, taking all the data that you've obtained and getting it into one single piece of truth. And then the manipulation of the data isn't straightforward as well. We won't have that much trouble in building out spreadsheets that could calculate that if people could just dump CSV or a type of data in there, but someone still needs to build it. So it's going to be good 40 or 50 hour endeavour to get that right.

However, they believe that even if they submit unconventional documentation (data exported from a cryptocurrency exchange, for instance), SARS would be likely to accept it.

SARS would accept it in. In essence because you are doing the right thing, generally you don't get challenged that much on it to supply loads of supporting documentation, but in our experience with SARS they do follow the audit trail that you provide them. So by providing your bank statement alongside a cryptocurrency statement, and if you could show 100,000 left your bank statement, you invested it into exchange A, and the 100,000 reflects there, they do start tracing and trusting those statements, those third party documents. The hard work comes in if SARS does challenge you, you've essentially got 21 working days to get back to them on their challenge, and then within 21 working days you need to essentially write up a letter explaining exactly what happened, explaining to the consultant reading that letter why you arrived to the value, what parts of the tax act did you follow, and then they've got 21 days to process it and revert back. So it does become quite a lengthened exercise if you don't just have one document or something nice that you can just give them.

There's a strong need for tax professionals to reduce their own risk by creating a legitimate paper trail that details exactly how they arrived at the tax calculations that they did. They also would prefer to not be in a position where their clients can lie to them or omit information.

The big debate in our risk team (which is essentially our tax team: tax managers and tax practitioners), is this debate of well, we're now expecting our clients to declare their taxable profits but they've now got money on crypto exchanges around the world, none of these gains are into fiat, some of it was Bitcoin into Ethereum, some of it was Bitcoin used to pay for services. None of these exchanges really have clear transaction histories that you can just take and download, work out average capital gains and losses. Do you use first in first out? Do you use weighted average? For the average man in the street, even for the tech man on the street, it's just impossible to track what really happened. You can try and track it in excel spreadsheets it's probably going to be slightly wrong still.

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One tax expert said that he intends to ignore the underlying “inter-crypto” activity and just try to get his clients to report the overall ins and out on a fiat level.

The best you can do is essentially say what did I pay in fiat, what did I sell and kind of what did I have left, and make the sum on the macro scale where you just simplify the calculation. There's a tangible need for spreadsheets like that. We have started building out columns and what you'd need, and please give us this value and that value, to do that sum on a macro scale. But it's definitely not on the level where you'd want to see it as you would with an IT3B tax certificate from a bank or from your investment institution.

8. Taxation: the evolving regulatory framework

Regulation in terms of cryptocurrency is emergent with most authorities adopting a wait-and-see stance. Given the relatively low volumes of cryptocurrency transactions, most authorities do not consider cryptocurrencies to be currency as such, and instead treat them as assets.

While the South African Reserve Bank (SARB) is yet to provide definitive guidance with relation to cryptocurrency, the South African Revenue Service (SARS) published a media statement¹¹ on 6 April 2018 providing guidance for the treatment of cryptocurrency and related assets.

The statement said that SARS would, “continue to apply normal income tax rules to cryptocurrencies and will expect affected taxpayers to declare cryptocurrency gains or losses as part of their taxable income.”

SARS reiterated that, “The onus is on taxpayers to declare all cryptocurrency-related taxable income in the tax year in which it is received or accrued.”

It noted that the word “currency” is not defined in the Income Tax Act, but that the receiver does not consider cryptocurrencies to fall into the category regardless because they are not in widespread use as a medium of payment or exchange in the Republic of South Africa. SARS therefore regards cryptocurrencies as “assets of an intangible nature.”

Cryptocurrency returns should therefore be declared as part of a taxpaying entities gross income.

South African taxpayers are also entitled to claim expenses associated with cryptocurrency accruals or receipts.

SARS said in its statement that:

Gains or losses in relation to cryptocurrencies can broadly be categorised with reference to three types of scenarios, each of which potentially gives rise to distinct tax consequences:

¹¹ <http://www.sars.gov.za/Media/MediaReleases/Pages/6-April-2018---SARS-stance-on-the-tax-treatment-of-cryptocurrencies-.aspx>

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(i) A cryptocurrency can be acquired through so called “mining”. Mining is conducted by the verification of transactions in a computer-generated public ledger, achieved through the solving of complex computer algorithms. By verifying these transactions the “miner” is rewarded with ownership of new coins which become part of the networked ledger.

This gives rise to an immediate accrual or receipt on successful mining of the cryptocurrency. This means that until the newly acquired cryptocurrency is sold or exchanged for cash, it is held as trading stock which can subsequently be realized through either a normal cash transaction (as described in (ii) or a barter transaction as described in (iii) below.

(ii) Investors can exchange local currency for a cryptocurrency (or vice versa) by using cryptocurrency exchanges, which are essentially markets for cryptocurrencies, or through private transactions.

(iii) Goods or services can be exchanged for cryptocurrencies. This transaction is regarded as a barter transaction. Therefore the normal barter transaction rules apply.

At the time of compiling this report there are no requirements in terms of value added tax (VAT) for cryptocurrencies in South Africa, pending the 2018 annual budget review. Until policy is clarified, SARS explicitly stated that it will not require VAT registration for purposes of the supply of cryptocurrencies.

Tax professionals consulted in this regard expect that reviewed policy will require VAT registration for vendors of cryptocurrencies, as is the case with sales of other digital goods in the Republic of South Africa. This change is expected to come into effect during the 2020 tax year, and would require anyone selling cryptocurrencies with a supply exceeding, or expected to exceed, R1 million in a 12 month period, to register as a VAT vendor.

SARS also published a cryptocurrency FAQ¹² to further clarify its stance on the matter.

An important distinction on the calculation of cryptocurrency values is that SARS requires the purchase price to be determined on the date of receipt and accrual, unlike the calculations applied to traded shares, which may be calculated using averages.

¹² <http://www.sars.gov.za/AllDocs/Documents/Legal/FAQs%20-%20Cryptocurrencies.pdf>

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Cryptocurrency is not regarded as a share and therefore SARS does not allow value to be calculated as the average for the year.

It is uncertain whether or not SARS is working with cryptocurrency exchanges such as Luno and other related business in South Africa to trace cryptocurrency transactions, but the recent notices published by international exchanges such as Bitfinex in terms of the Organisation for Economic Co-operation and Development Common Reporting Standard (CRS) suggest that formal exchanges will increasingly be expected to report to tax authorities, as do banks and exchanges of traditional securities.

The South African tax authority said that, "Legislatively, SARS is granted a wide range of collection powers in terms of the Income Tax Act. Enforcement and audit processes are confidential and not shared with members of the public."

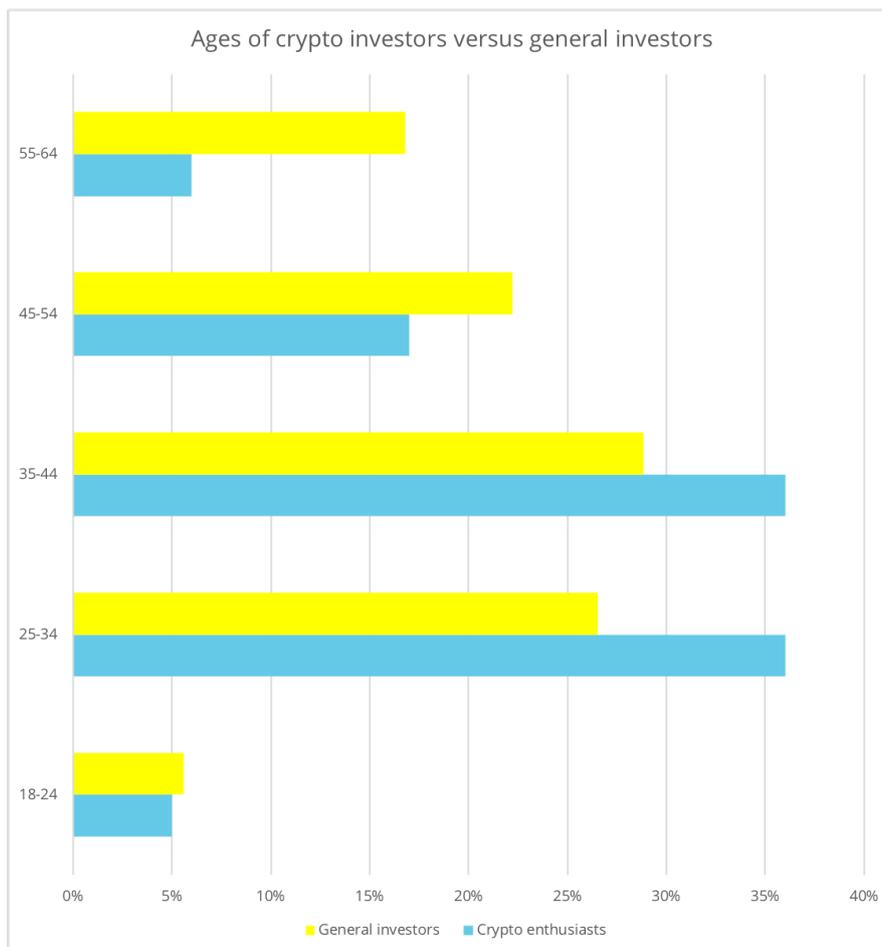
Conclusion

Taxation of cryptocurrency in relation to personal income and capital gains tax is straightforward and does not require any unusual treatment in reporting. Tax calculations can be applied as they would to any other intangible asset. VAT will not be a consideration until policy is reviewed in this regards.

Given the open nature of many cryptocurrency blockchain ledgers, the self-regulating records of fiat exchanges, and the requirements of such exchanges to now report to international tax authorities, cryptocurrency users are unlikely to be able to hide their cryptocurrency holdings from tax authorities, unless those currencies were earned from mining or other activities where no fiat conversion was involved.

9. Demographics

Our survey reveals that the majority of cryptocurrency enthusiasts are relatively young compared to general investors in South Africa, although on average, all investors (in crypto or traditional investors) are older than general internet users.¹³



47% of survey respondents reported a monthly household earning of over R50,000 per month, which would equate to a total population estimate of 258,500 (47% of our estimated market size of 550,000). These individuals are within the top **2.9%** of South African income earners.¹⁴ In total, there are 1,157,024 individuals in South Africa who

¹³ Source for general investor ages: the AMPS 2016B survey, filtering the base down to "Personally have an investment"

¹⁴ Source for general household income: the AMPS 2016B survey.

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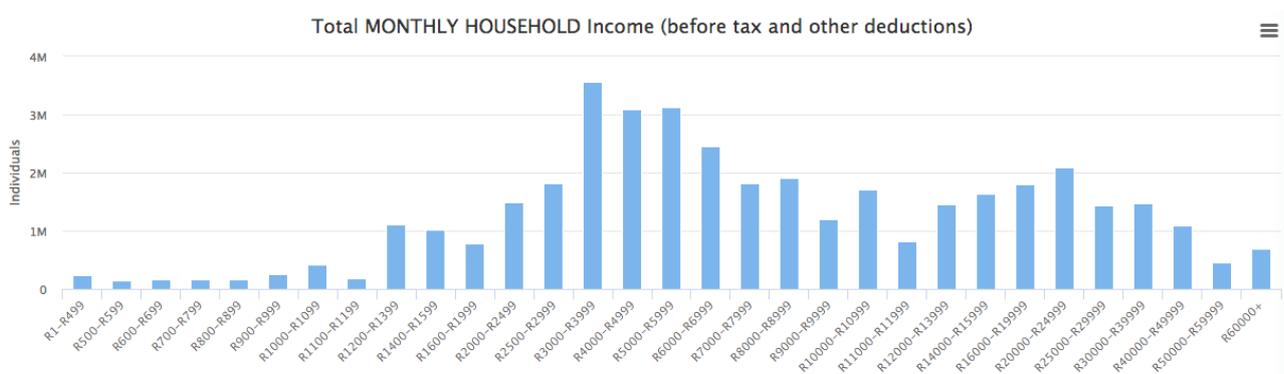
report living in a household earning over R50,000 a month, which means that **22%** of this group are already cryptocurrency users.

What is your monthly household income before tax?

173 out of 173 people answered this question

1	R50 000 - R100 000	51 / 29%
2	R25 000 - R50 000	44 / 25%
3	R100 000 - R200 000	32 / 18%
4	I prefer not to answer	17 / 10%
5	Over R200 000	15 / 9%
6	R10 000 - R25 000	13 / 8%
7	Under R10 000	1 / 1%

The **25%** of cryptocurrency users who earn between R25,000 - R50,000 a month are within the top 13% of income earners in South Africa. There are about 4-million South Africans in this population group, which would mean that crypto penetration in this group can be estimated at a much lower **3%**, indicating much more room for growth.



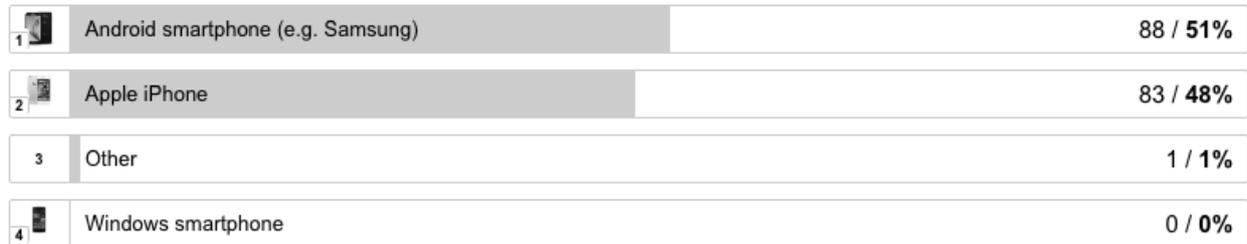
For comparison, this is the breakdown of household income within the South African population as a whole, from the AMPS 2016B dataset.

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Some final demographic notes: our survey group over-indexes on the Apple iPhone, with the user base split almost evenly between Apple and Android. Our survey group significantly over-indexes on English as their home language, versus isiZulu and isiXhosa. Finally, a high percentage of our user-base are comfortable with tools common to collaboration and workflows within design and technology businesses (Slack, Adobe etc.), which aligns with our finding about common careers our survey group engage in.

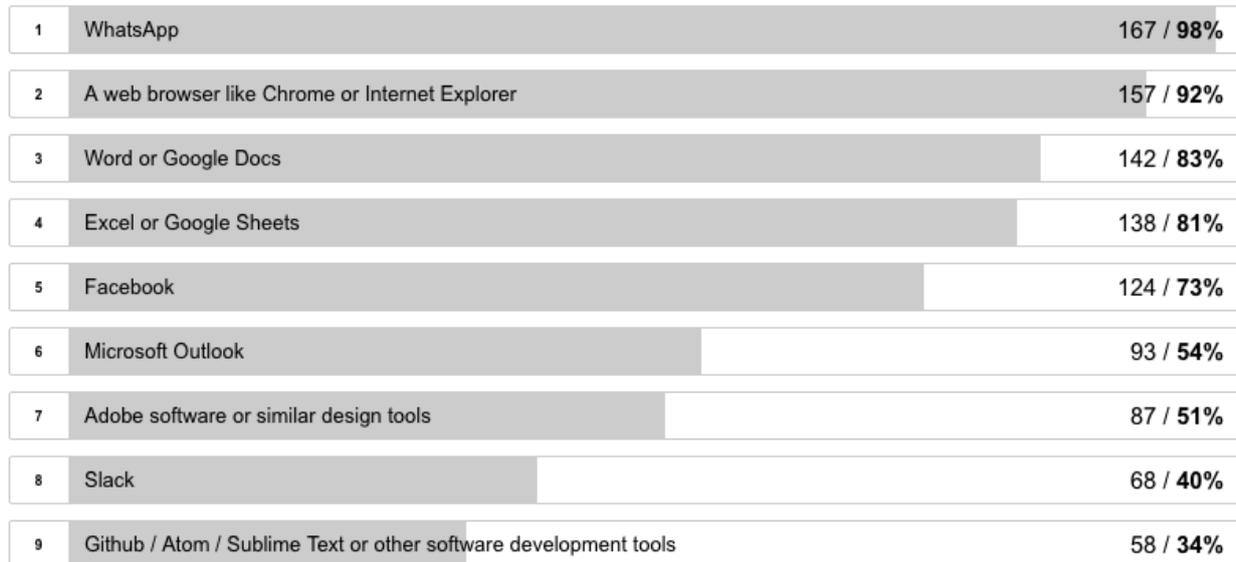
What is your main phone?

172 out of 173 people answered this question



Which of these computer programmes or apps have you used in the past week?

171 out of 173 people answered this question



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What language do you speak at home most often?

171 out of 173 people answered this question

1	English	143 / 84%
2	Afrikaans	24 / 14%
3	isiXhosa	3 / 2%
4	Other	1 / 1%
5	isiZulu	0 / 0%

Conclusion

In summary, here are the hypotheses we began with, and what we have learned about them.

Hypothesis	Acceptance
Tax consultants do not have clear answers with regards to the taxation of cryptocurrency.	Partly true. Amongst the group we spoke to, about half of them had a fairly clear idea about the taxation of cryptocurrency.
Cryptocurrencies currently exist in a grey-area and, as such, are not taxed in terms of income or capital gains.	False. SARS has recently clarified their stance. However, there are still a lot of questions that remain around small details like VAT.
South African regulation will likely align with South East Asia.	Unclear.
Cryptocurrencies represent a new asset class to regulators and require bespoke regulation as such.	This may develop in time.
Most cryptocurrency users are adoptions a 'wait-and-see' attitude toward tax; they are not currently paying tax on their cryptocurrency earnings but expect that they will have to in the future.	True for the majority of users. Some cryptocurrency users believe that crypto is effectively untaxable, and this is a primary reason for their interest. Increasingly, it seems like they are mistaken in this belief.

Appendices

Appendix A: Research Limitations

All research projects have limitations, and it is important to note these limitations and remain conscious of their likely impact on the data. We have identified the following potential limitations with our research.

Lack of access to data	The most accurate data about market size, average holdings and trading behaviour is collected by the major exchanges and wallets used by South Africans. This data is proprietary and is not made available to the public domain.
Anonymity	Anonymity is a primary feature of most cryptocurrencies, which means it is impossible to track whether accounts on different exchanges or coins ultimately belong to the same human or institution. Further complicating things, nearly all cryptocurrencies boast a many-to-one relationship between public addresses and users. Even where it is possible to analyse the number of wallets or transactions on a network, it is impossible to map that to how many people or institutions have been involved.
Sample size	Our survey has received 173 responses. If our theory of the total population size of 500,000 is correct, that gives us a confidence interval of around 7.45, which means that all answers could be 7.45% higher or 7.45% lower than given, working off a 95% confidence level.
Selection bias	Both our survey and recruitment advertisement for one-on-one interviews were circulated amongst communities that self-identify as being cryptocurrency enthusiasts. This means that a high level of selection bias is likely. Particularly, we can assume that the individuals we spoke to: <ul style="list-style-type: none"> • Trade more frequently • Hold a wider variety of cryptocurrencies • Have a higher total investment value • Are more optimistic about the future of cryptocurrencies than the population on average.

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Social desirability bias	Some behaviours relating to cryptocurrency are classified as illegal under South African law (for instance: participating in pyramid schemes, purchasing illegal substances, not reporting earnings on tax returns). These activities are likely under-reported in our data. Users may also exaggerate the size of their cryptocurrency holdings, frequency of trading, or mis-state their motivations in order to impress the interviewer.
Inequality	Our literature review suggests a high degree of inequality in terms of wealth distribution in cryptocurrency. This means that a very small number of people likely own a high proportion of the value in cryptocurrency. A very small number of people are likely also dramatically over-represented in the trading behaviour on cryptocurrency platforms. Because of the anonymity and many-to-one nature of cryptocurrency accounts, this means that general mean market data we look at is likely very different to median behaviour. It is extremely difficult to identify and interview “whales” in the cryptocurrency space.

Note: sample sizes and confidence intervals are calculated using this tool: <https://www.surveysystem.com/sscalc.htm>

Appendix B: Survey questions

The full survey can be viewed at this link: <https://sam1061.typeform.com/to/YaDs3r>

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For any further questions or clarification, please contact:

Sam Beckbessinger
sam@phantom.design

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Simon Dingle
simon@phantom.design

