



Report of the State Comptroller of Israel | November 2024

Ministry of Finance – The Tax Authority

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# **Taxation of Digital Currencies**





# Taxation of Digital Currencies

## Background

Over the past 15 years, the global financial market for digital assets, including digital currencies (cryptocurrencies), has significantly grown, with notable developments in Israel. The digital asset market is characterized by volatility, peaking at about USD 3 trillion in 2021 and again in 2024. The potential tax revenue from cryptocurrency activities in Israel is estimated to be substantial, potentially reaching NIS 2 to 3 billion.

The regulation of digital currencies is a concern for the Israel Tax Authority (the Tax Authority) and other regulatory bodies. The "Task Force,"<sup>1</sup> tasked with integrating cooperation among enforcement agencies, has identified digital assets as critical, and it is characterized as generating crime.

This audit examined various aspects of the taxation of digital currencies. Determining the taxation rules for decentralized digital currencies presents numerous challenges, some similar to those encountered in other areas of taxation, while others are unique. These challenges stem from the management technology of digital currencies, difficulties in accurately assessing their value, and the nature of digital currencies as intangible assets transferred globally.

The growing number of digital currency users in Israel and worldwide, along with the increasing value of these currencies over the years, generating income for their holders, necessitates regulatory advancements in cryptocurrency, enabling optimal tax collection, foster economic growth, and maintaining Israel's position as a leader in technology and its products.

Recent developments in crypto have been observed in developed countries, including the United States, the United Kingdom, and the European Union. In January 2024, the United States permitted investment funds to trade in Bitcoin-type digital currencies through an exchange-traded fund (ETF) held directly or via a third party.

At the end of 2017, the Tax Authority published digital currencies taxation rules.

1 According to Government Resolution 4618 of January 2006, the combatting of serious crime, organized crime, and their associated products has been designated as a long-term objective. A "task force" has been formed, with the primary responsibility of establishing goals, policies, and defining action priorities. The Attorney General serves as the chair of this task force, which includes the State Attorney, the Police Commissioner, the Director of the Tax Authority, and the Chairman of the Securities Authority.



## Key Figures

**about  
0.2–1.67  
million  
holders**

of digital currencies in Israel in 2023, according to various estimates

**about NIS  
2–3 billion**

the potential of tax collection from crypto in Israel

**about  
0.25%  
of  
reporting  
entities**

report to the Tax Authority on their activities in digital currencies. 500 reports on average in 2018–2022, out of a minimum reporting potential estimated at 200,000

**8  
publications**

which include crypto taxation rules, were issued by the Tax Authority in 2017–2023. However, the rules were not incorporated in the legislation

**about  
31.5%  
decrease**

in the assessors and coordinators in the Tax Authority in 2019–2023 from 833 to only 570

**0  
bookkeeping  
audits**

were carried out to date by the Tax Authority to examine the recording of a transaction for which crypto was received

**0 inquiries  
to the Tax  
Authority**

in the payment of crypto activity tax application within the "Procedure for tax payment through the Bank of Israel" from the publication date on December 31, 2023, until the audit end

**USD 130**

average annual income in a digital wallet in Israel



## Audit Actions



From October 2023 to February 2024, the State Comptroller's Office audited aspects of digital currency taxation.

The audit was performed at the Tax Authority, focusing on the Income Tax Professional Department, the Legal Department, the Assessment and Audit Department, the Procurement Department, the Investigations Department, the National Unit for Investigations and Fight Against Economic Crime (Yahalom Unit), the Spokesperson's Department, the Collection Department, and select assessment offices, as well as in the VAT Professional Department and Assessment and Audit Department. A supplementary audit was conducted within the Tax Authority's Data Processing Unit (SHAAM), the Innovation Authority, the Chief Economist Division of the Ministry of Finance, and the Bank of Israel.

Meetings were held with stakeholders in the cryptocurrency market, including the Forum of Cryptocurrency Companies, entities involved in investing and trading in cryptocurrencies, and company owners in this sector (cryptocurrency market stakeholders), as well as with representatives working vis-à-vis the Tax Authority and a designated representative organization.

## Key Findings



**Tax Collection from Cryptocurrency** – Israel's estimated tax revenue potential from cryptocurrency activities income is significant, potentially reaching NIS 2–3 billion. The audit raised that the Tax Authority has not adequately assessed the existing tax potential within the cryptocurrency market using available tools and relies on outdated estimates. This may demonstrate a lack of attention to the matter. Due to insufficient projections or underestimations, a misleading representation was raised to mitigate the lack of cryptocurrency activities reporting, including identifying issues, preparing a work plan, and setting targets for increasing reporting and optimizing tax collection on cryptocurrency revenues.



**The Actual Reporting Rate on Cryptocurrency Activities, Compared to the Reporting Potential** – it was raised that from 2018 to 2022, the average annual number of those reporting cryptocurrency activity to the Tax Authority was merely 500. The cryptocurrency activity reporting rate to the Tax Authority is virtually zero against the estimated potential of at least 200,000 users.



**🔴 Regulation of Cryptocurrency in Israel** – it was found that the Tax Authority published taxation guidelines for cryptocurrency at the end of 2017, making Israel one of the first countries to take such action. However, since 2018, the Tax Authority has only issued three cryptocurrency taxation publications. It has not made the necessary adjustments despite significant advancements in cryptocurrency, particularly with various financial instruments based on blockchain technology, and notable regulatory developments in the European Union, the United States, and the United Kingdom. Thus, the Tax Authority added to the tax uncertainty. Uncertainty concerning regulation negatively affects the ability of companies and individuals to operate in Israel and may lead to a migration of activity to other countries. Furthermore, as of the audit's end date, the Tax Authority and the State Revenue Administration have not finalized the memorandums necessary to amend the Income Tax Ordinance and the VAT Law, nor have they drafted subsidiary legislation. Consequently, these have yet to be published by the Minister of Finance despite the elapsed timeframe allocated in Government Resolution 204 of February 2023, which expired in August 2023.

**🔴 Bookkeeping Instructions for Cryptocurrency Transactions** – the audit raised that the Tax Authority has not revised bookkeeping instructions for cryptocurrency, including valuation determination in crypto transactions and the requirement to issue receipts for cryptocurrency transactions and regarding disqualification of books, even though it was authorized to do so under Section 130 of the Income Tax Ordinance. Moreover, as of the audit end date, the Tax Authority has not conducted bookkeeping audits concerning transactions where cryptocurrency was received. This hinders identifying bookkeeping deficiencies and imposes penalties as done for other payment methods, creating an environment for tax evasion and undermining deterrence.

**🔴 Frequency and Method of Reporting Cryptocurrency Activity** – the audit raised that the Tax Authority has not adjusted the frequency of reporting obligations or the capital gains reporting form (Form 1399) to reflect the nature of digital currency usage, characterized by numerous transactions, intricate calculations, and the complexities of tax payment. The prevailing situation imposes significant compliance costs and bureaucratic burdens on taxpayers, consequently affecting the volume of reporting to the Tax Authority regarding transactions and profits generated.

**🔴 Retrospective Reporting of Cryptocurrency Activity** – the audit raised that the Tax Authority has not set principles to retrospectively process income reports from cryptocurrency activities. This inconsistency in handling such cases among tax officials may lead to violations of proper administrative procedures and hinder the Tax Authority's obligation to maintain uniformity and equitable policies for all taxpayers.

**🔴 Assessors Training in Cryptocurrency** – it was found that the limited training provided to income tax assessors by the end of 2023 failed to equip them with the practical tools necessary for constructing assessments and the requisite professional capacity to address assessments with representatives specializing in the field.



Furthermore, the Tax Authority has not supplied assessors with technological calculation tools. Moreover, VAT auditors had not received any cryptocurrency training by the audit end date.

**Technological Tools to Calculate Tax from Cryptocurrency Activities** – the audit found that the Tax Authority has yet to complete a technological procurement process to calculate capital gains and tax from digital currencies using dedicated software, which has been available for several years, particularly among representatives in the sector. The protracted duration of this process, exceeding three years, has hindered the Tax Authority's ability to achieve the professional standards present in the market, adversely affecting deterrence and tax collection efforts.

**Human Resources at the Tax Authority for Cryptocurrency Taxation** – it was found that from 2019 to 2023, the number of assessors and coordinators in the Income Tax Division decreased by 263, while the number of auditors and VAT coordinators decreased by 55 when the Tax Authority has not adequately recruited personnel to replace those leaving. As of the end of 2023, the Authority has not implemented significant measures to mitigate the trend of employee attrition, which adversely affects its assessment functions, including those related to cryptocurrency, and its overall objectives. Furthermore, the retention strategies employed for tax assessors in 2023 focused primarily on financial incentives, with no substantial efforts directed toward other motivational factors relevant to the Authority's workforce.

**Information Exchange with Other Countries in the Cryptocurrency Sector** – in 2023, the legal tools and most operational mechanisms of the Crypto-Asset Reporting Framework (CARF), established by the OECD to facilitate international information exchange in this domain, were finalized. Israel has yet to commit to this initiative, and the Tax Authority has not made significant progress towards fulfilling the CARF requirements in preparation for the information exchange as early as 2027. This increases the risk of Israel being placed on the OECD's blacklist of tax evasion countries.

**Tax Obligations Related to Cryptocurrency Activities** – an inherent contradiction was found within the state authorities' activities regarding cryptocurrency taxation. The Tax Authority mandates tax payments on profits from cryptocurrency activities, which must be processed through the banking system. Simultaneously, based on the interpretation of the regulation by the Bank of Israel and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), banks refuse to accept funds in some cases derived from cryptocurrency activities, even after the Proper Conduct of Banking Business Directive No. 411<sup>2</sup> was amended following the High Court of Justice ruling. The Tax Authority published a procedure for tax payment through the Bank of Israel on December 31, 2023, after years of this issue being unresolved. Initially, the procedure was released as a six-month temporary order, and an extension was approved until July

2 Proper Banking Management Instructions (PCB) are instructions published by the Supervisor of Banks concerning the methods of operation and management of a banking corporation.



1, 2024. It was not until April 3, 2024, that the Tax Authority issued an executive order to activate this procedure over three months following its publication after half the activation window defined in the temporary order had lapsed. The operational methods for the procedure within assessment offices and the processes for representatives and taxpayers remain undetermined, and the form for submitting tax payment requests under the above procedure has not been issued. The procedure currently applies solely to individuals, places an unnecessary bureaucratic burden on the applicants, and imposes on the Tax Authority responsibility exceeding its purview to combat money laundering. Moreover, by the audit end, no inquiries had been processed within the framework of the procedure. Furthermore, the Tax Authority was not prepared for the procedure's implementation before its publication, among other things, since it had not yet completed technological procurement to examine the taxpayers' reports and had not determined an "auditing party" whose designation is necessary for the operation of the procedure.



**Publication of Taxation Rules in the Cryptocurrency Sector** – the Tax Authority commenced the publication of cryptocurrency taxation rules at the end of 2017, positioning Israel among the first countries to do so.

**Crypto Training** – initiated by the Income Tax Investigation Division, a course encompassing theoretical and practical aspects of cryptocurrency began in February 2024, with representatives from each tax office expected to complete the training.

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## Key Recommendations



It is recommended that the Tax Authority expedite the anchoring of crypto taxation rules within the legislation. Until a comprehensive legislative procedure that fully lays out the Authority's position regarding questions arising from the public on significant issues is finalized, it is recommended that the Authority disseminate its positions through available channels, including professional publications, guidance to representatives, and the publication of taxation decisions relevant to the sector.



In collaboration with the Tax Authority and the State Revenue Administration, the Minister of Finance should prepare the memorandum of law and draft secondary legislation to set crypto taxation rules under Government Resolution 204. This will facilitate the publication of the rules, fostering clarity and certainty regarding taxation for crypto holders.



It is recommended that the Tax Authority investigate the reasons for the low digital currency activities reporting rates and devise a strategy to address it, incorporating goal-setting and actionable plans to enhance the scope of reporting.

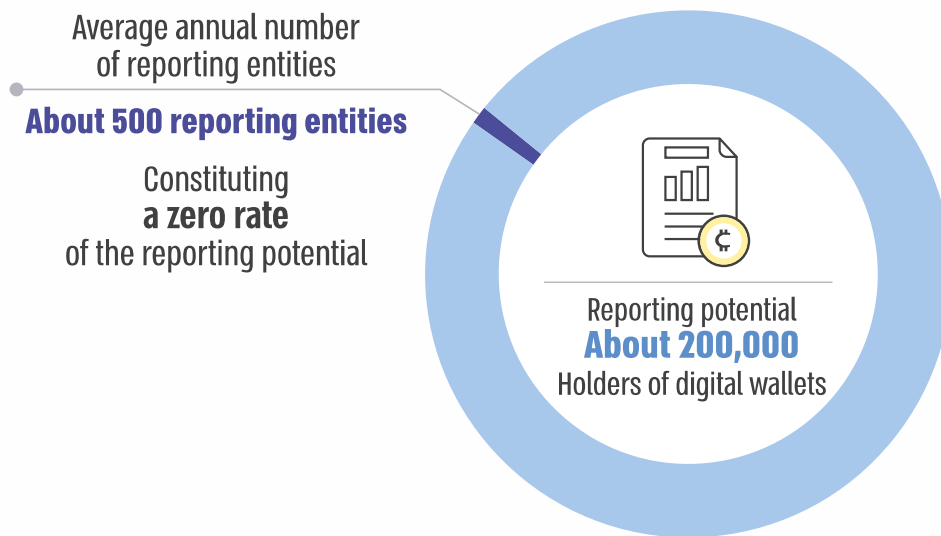




- 💡 The Tax Authority should regulate retrospective reporting, including crypto income. It is recommended that this regulation be implemented via formal legislation rather than through temporary measures to monitor these reports and standardize their handling by tax assessors and other units of the Authority.
- 💡 The Tax Authority should implement the International Crypto-Asset Reporting Framework (CARF), enabling the collection of information regarding Israeli crypto users who fail to report taxable operations, thereby integrating them into the tax system.
- 💡 Before any further extension of the tax payment procedure through the Bank of Israel, it is recommended that the Tax Authority draw conclusions, implement adjustments, and consider consulting with professional bureaus and market stakeholders.
- 💡 It is recommended that the Bank of Israel facilitate tax payment executions through commercial banks. It is recommended that the Bank of Israel engage in consultations with the Tax Authority and IMPA and cooperate with them, particularly in response to the court's directive to address the challenges associated with tax payments related to crypto income.



**The Average Number of Annual Reports on Crypto Activity was Reported Out of the Estimated Minimum Reporting Potential for 2018–2022**



According to data from the Tax Authority and the Chief Economist's report, processed by the Office of the State Comptroller.

The diagram indicates that from the estimated reporting potential of about 200,000 digital wallet holders in Israel, the actual reported activity in digital currencies is negligible, averaging about 500 tax reports per year for the tax years 2018 to 2022.



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## Summary

Since 2009, digital currencies have occupied an increasing volume in the financial world worldwide. Given its complexity, the regulation of digital currencies has become essential to mitigate risks associated with this emerging technology and its potential benefits. The taxation of digital currencies challenges stem from various factors, including the management technology of digital currencies, the difficulties in ascertaining their value, and their nature as intangible assets that can be transferred globally. Insufficient attention to these challenges facilitates tax planning and evasion.

Israel was among the first nations to set cryptocurrency taxation principles. However, the European Union, the United States, the United Kingdom, and other countries have significantly advanced their regulations in this field, with Israel lagging.

Legislative definitions and taxation rules in this area have yet to be formally anchored in legislation, resulting in ongoing taxation uncertainty in the crypto sector despite the substantial influence of taxation rules and various definitions on determining tax liability and tax calculations. The Tax Authority must address this matter.

The Tax Authority should adapt the required reporting frequency and forms to reflect the nature of cryptocurrency usage. Increased outreach efforts concerning the reporting and taxation of cryptocurrency activities through various communication channels are recommended, along with the consolidation of reporting and taxation rules for ease of access to expand the scope of reporting.

To ensure practical and professional assessment and treatment, the Tax Authority should prioritize recruiting and retaining qualified personnel and provide practical training for handling cryptocurrency cases, including using technological tools for report examination.

Additionally, the Tax Authority should evaluate the impact of the procedure for tax payment through the Bank of Israel to alleviate difficulties in tax compliance and make adjustments and expansions for diverse populations in consultation with the Bank of Israel, IMPA, and other relevant market stakeholders to ensure that tax payment challenges do not hinder reporting on cryptocurrencies income.

Collaboration with professional bureaus, industry stakeholders, and international counterparts is recommended to formulate and publish clear taxation rules, similar to recent initiatives in the European Union and the United Kingdom. Furthermore, in coordination with the Tax Authority, the Minister of Finance should finalize a memorandum of law regulating taxation, as outlined in Government Resolution 204. Enhanced clarity in taxation can strengthen public

