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AN INTERNATIONAL TAX ON CRYPTO TRADING TO HELP SOCIAL PROTECTION RESPOND TO NATIONAL EMERGENCIES

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Mobilizing public resources to help vulnerable people get through threatening challenges is a universal principle. International support in times of crisis is also a widely accepted principle, as in environmental and public health catastrophes, international financial crises or other emergencies. International financial cooperation during the COVID-19 pandemic was a case in point, although it was insufficient in amount and most of the assistance took the form of loans, adding to the debt burden of many already heavily-indebted governments (UN, 2022). Additional international support during emergencies should be evident, but *unmet* emergency food aid needs grew by 23% in 2023 and only 35% of the international funding formally requested for hunger relief globally was provided (Action Against Hunger, 2024).

A better approach is to raise more domestic and international tax revenue. Trading in crypto assets—including purchases and sales of crypto "coins" using conventional fiat money or investment in non-fungible tokens (NFTs) and other crypto-denominated assets—will increasing fall into the sights of tax collectors, as the international "Roadmap on Crypto Assets" is implemented. The Roadmap is contained in a Synthesis Paper that the Group of 20 (G20) requested the International Monetary Fund (IMF) and the Financial Stability board (FSB) prepare (IMF and FSB, 2023).

This paper proposes that to better meet global emergency needs, a common, modest transaction tax should be collected from all registered crypto trading platforms, which are increasingly falling into the sights of tax authorities around the world. A multilateral initiative would share the transaction tax revenues collected with cash-strapped developing country social protection systems during emergencies.

Bringing crypto inside the house of finance

The intention of the G20 crypto roadmap is to bring crypto trading fully within policy and regulatory processes. Not only would this curtail crypto use by criminal elements and for terrorist financing, but it would also respond to concerns that

> widespread adoption of crypto assets could undermine the effectiveness of monetary policy, circumvent capital flow management measures, exacerbate fiscal risks, divert resources available for financing the real economy, and threaten global financial stability. (IMF and FSB, 2023)

The finance ministers and central bank governors of the G20 thus committed in October 2023 to implement the crypto roadmap (G20, 2023). As the G20 is a self-appointed body of the world's largest economies, it is well aware that the standards in its crypto roadmap need to be adopted universally to prevent systemic risks and fiscal losses from regulatory arbitrage. The strategy for universalizing application of its principles is to include its policy recommendations and oversight in annual surveillance consultations that IMF staff undertake with all member countries (IMF, 2022) and in joint IMF and World Bank Financial Sector Assessment Programs (FSAPs), which are mandatory for countries having systemically important financial sectors and are available on a voluntary basis for all other countries (IMF, 2024). Technical assistance in implementing the Roadmap will also be provided.

Taxing profits on crypto trading

Most governments tax the profits from purchase and sale of financial assets, at least when the tax authorities can identify them (World Population Review, 2024). This should increasingly include profits on crypto trading.

Some countries have thus begun to require that the trading platforms report to their tax authorities total trades made by each taxpayer. Receipt of the customer copy of this information provides a strong incentive to voluntarily pay the taxes due on the trades, as not doing so is a violation subject to fine or worse.

An implicit assumption in many tax systems is that gains from speculative trading should be taxed more heavily than long-term saving, as for retirement. The trading of crypto assets can be classified as speculative in nature, given the absence of any actual capital formation underlying the assets, their huge price volatility, and their excessive contribution to global warming from "mining" crypto currencies. India thus applies a 30% tax on profits from crypto trading, the same rate as on gambling winnings (McClure, 2024). The USA treats trading or sale of crypto assets like any other asset held for investment returns (Liebkind, 2024).

In principle, reports should be filed on non-resident customers as well as those residing in the country hosting the trading platform. Indeed, the member countries of the Organization for Economic Cooperation and Development (OECD), working with G20 countries, developed a Crypto-Asset Reporting Framework for the "automatic exchange of tax information on transactions in Crypto-Assets in a standardized manner with the jurisdictions of residence of taxpayers on an annual basis" (OECD, 2023). Jointly with the OECD Common Reporting Framework, which over 100 jurisdictions have implemented, it appears that many governments that may want to reliably tax crypto trading of their residents will have a practical avenue through which to pursue doing so.

Taxes are due as well on profits from off-platform trades but usually they are not collected owing to the lack of reporting. There is thus a good fiscal equity reason to support the effort of the Roadmap to bring more and more of crypto trades onto formal platforms. It is obviously also in the interest of the platforms, as it brings them additional business.

An international transaction tax on crypto trading

The proposal here is to build on the expanding taxation of crypto trading profits to add a small tax to the fees the platforms charge their customers for making crypto trades. At least 25 governments already tax financial trading, at least when the trading takes place on a registered platform (BNY Mellon, 2018). It's not a new idea. India already taxes crypto trading.

The platforms would add the transaction taxes collected to their periodic payment of their own business income taxes to their tax authorities. The tax authority that receives the crypto transaction tax revenue would then transfer the internationally agreed portion (why not 100%?) to the international entity that would be charged with undertaking the international cooperation effort. Once operational, the crypto transaction tax revenue would not have to go through the government's annual budget process.

The revenue potential from the tax would depend on the numbers paying the tax, the amount of the tax, and the influence of the amount of the tax on the numbers paying. This will be a function of how much of global crypto trading is covered and how much moves off of platforms that charge the tax.

It also depends on the growth of global trading, which is highly volatile. The volume of trades dropped about 30% in 2022 but subsequently, rose strongly in 2023, reaching US$36.6 trillion (CoinGecko, 2024). Further increases look likely now that the USA government approved tracking crypto assets in exchange-traded funds (Gensler, 2024). To have sufficient funds at hand to address crises as they arise, the tax collected in good years would offset the lower collection in poor years.

In addition, as some crypto transactions are used for modest retail payments and by migrants to transfer funds home, a policy would need to specify how large a transaction should be before incurring the tax. In India, for example, intra-family transactions and transactions of "specified persons" below Rs50,000 (about US$600) are exempt; other transactions below Rs10,000 (about US$120) are exempt (Cleartax, 2024).

One may expect plenty of controversy on whether and how large the tax should be. One study claimed that India's 1% transaction tax failed to raise $425 million in potential revenue as five million clients shifted to offshore trading platforms. The authors proposed the Indian tax be lowered to 0.01% (Gautam, 2023).

If the tax were universally adopted, the loss of transactions to non-cooperating platforms would be less of a concern (although peer-to-peer transactions would likely still escape the tax). A 2023 IMF staff working paper estimated the revenue that would be mobilized if the tax rate that would have been applied under the European Commission's plan to tax financial transactions (0.1%) had been applied to all crypto transactions in 2021. It calculated this tax would have mobilized US$15.8 billion, absent leakages (Baer et al., 2023). A tax of 0.2% would have produced over US$30 billion. Recorded global official humanitarian aid contributions in 2023 were US$34 billion (United Nations, 2024).

The Fund staff in their working paper suggested that readers "consider…the revenue that would be raised by applying to cryptocurrencies a financial transactions tax of the kind sometimes proposed or applied to trading in securities." They made clear that they were not making "a recommendation." This paper *does* recommend such a tax.

Indeed, a crypto transaction tax could mobilize serious money to fund emergency social protection—notably poverty and hunger relief—and help countries build robust and reliable universal social protection systems. It could make a significant contribution to overcoming the long-seen deficit in the international financial architecture supporting social protection. It merits a place on the Financing for Development agenda and conference in Spain in 2025.

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