



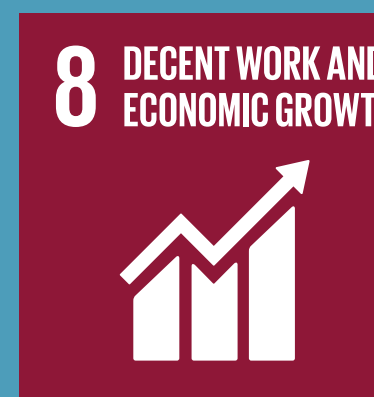
REPUBLIC OF SLOVENIA
COURT OF AUDIT

AUDIT REPORT

Efficiency of regulating virtual currencies

Performance audit

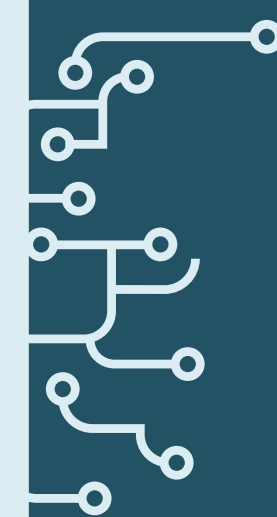
Audited period: 1 January 2016 to 30 June 2018



What is virtual currency?



Virtual currency is a **digital representation of value**. It can be issued by natural or legal person **that is not central bank or public institution**.



THE COURT OF AUDIT AUDITED:

Whether the Ministry of Finance efficiently regulated the field of virtual currencies.

TRADITIONAL CURRENCIES



money

VIRTUAL CURRENCIES



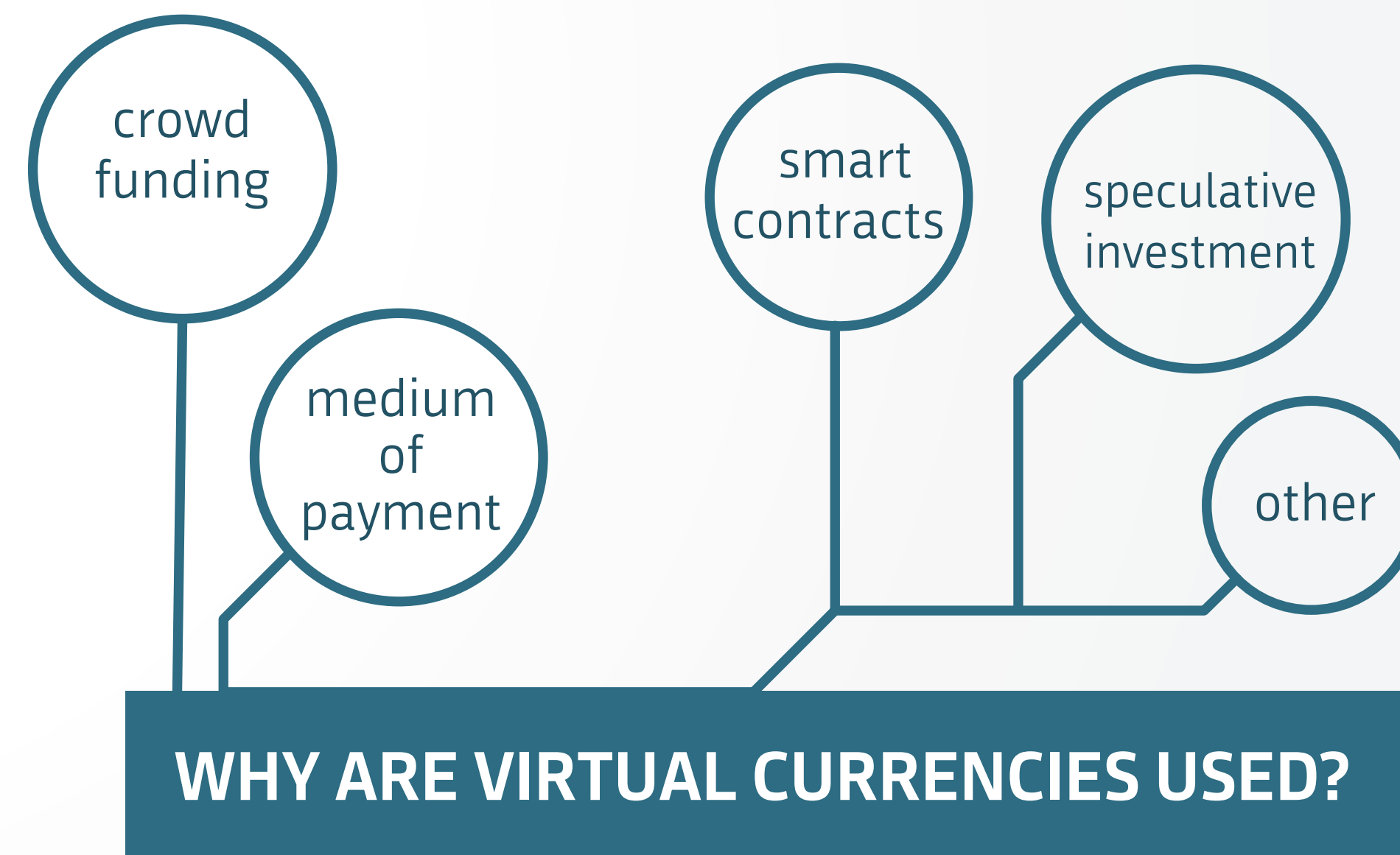
e-money



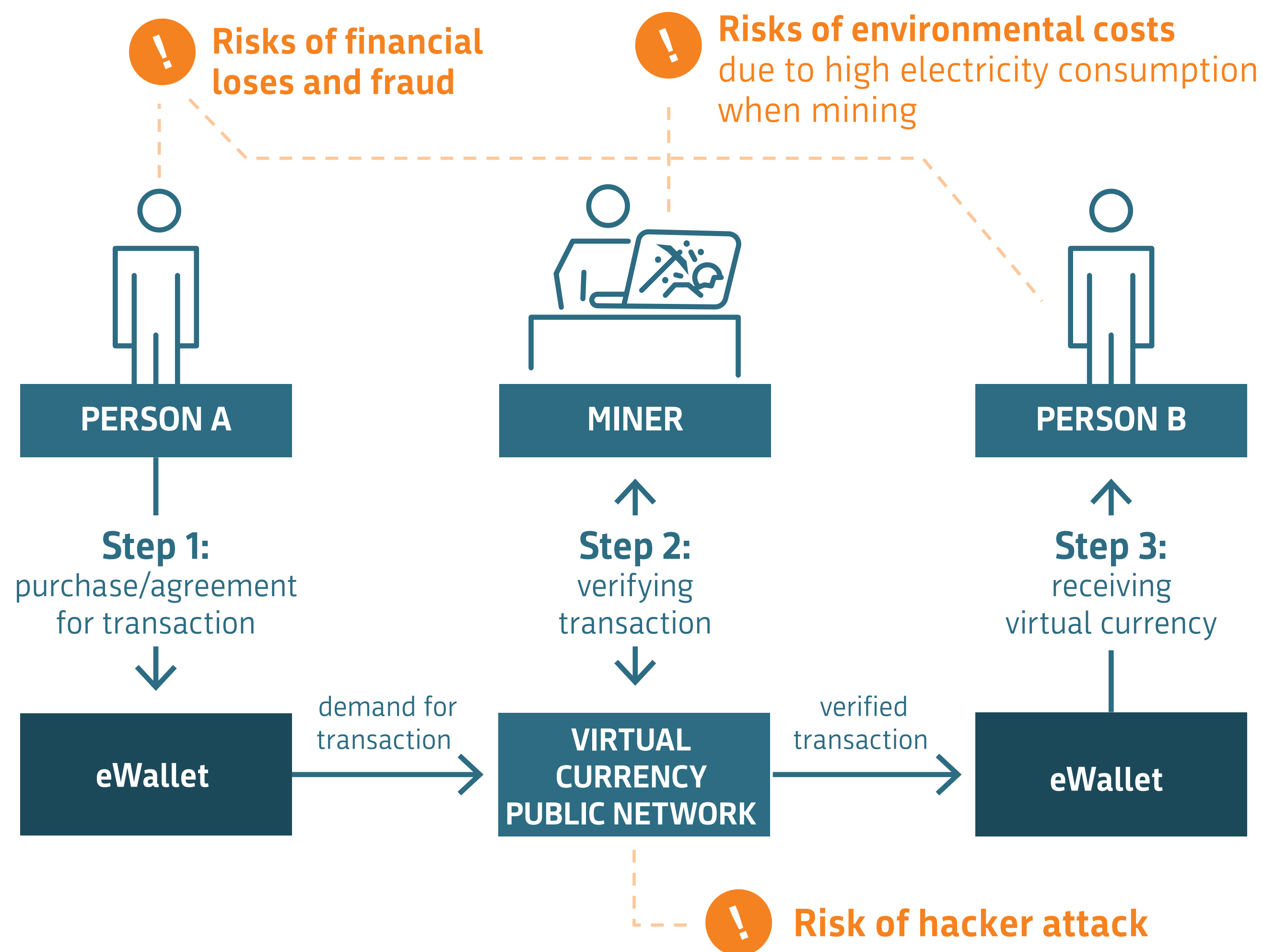
cryptocurrency

other virtual currencies

digital currencies



Virtual currency transactions and risks



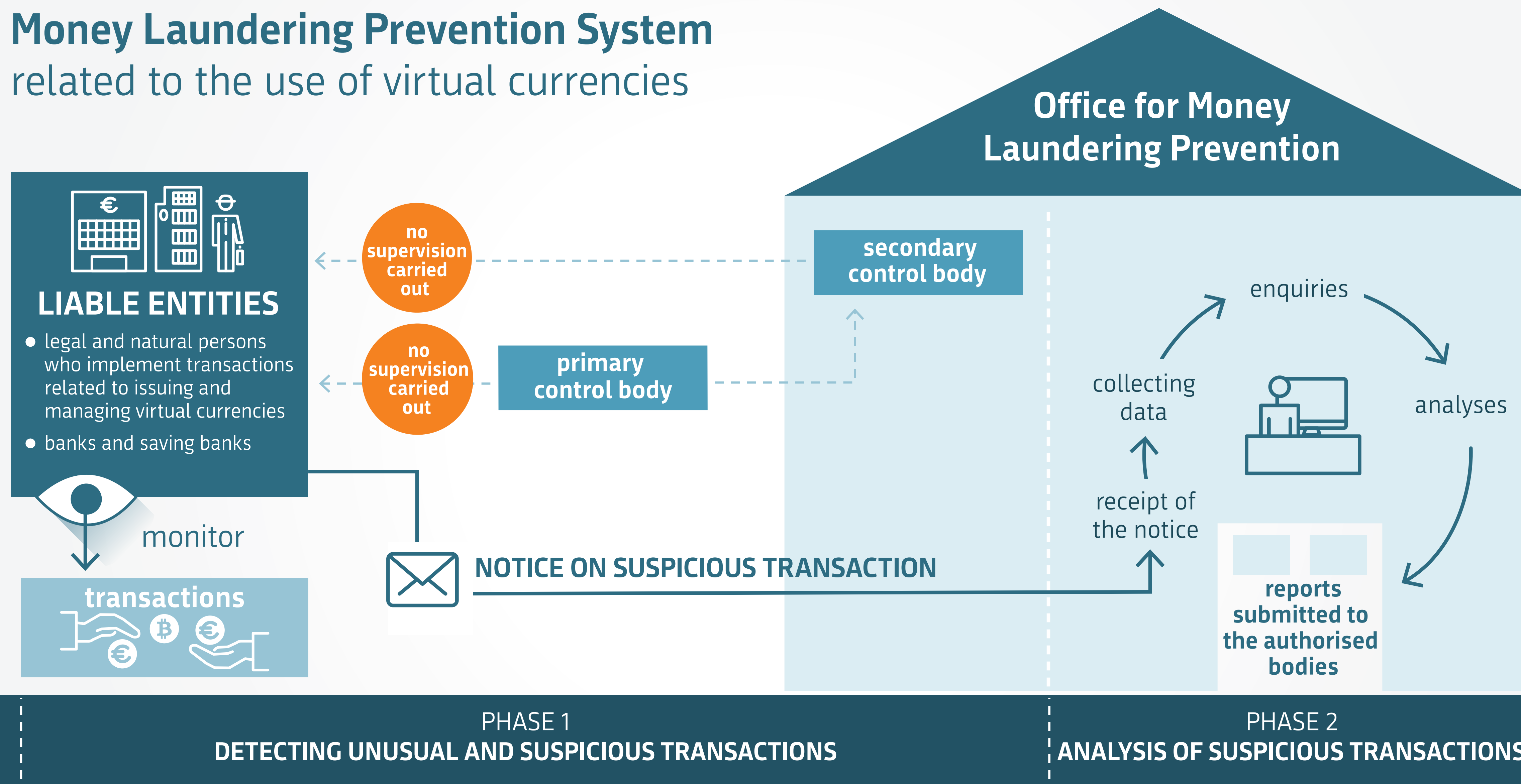
The Court of Audit reviewed how the risks relevant to the state are managed

! Risk of money laundering and terrorism financing

! Risk of tax evasion

The Ministry of Finance (auditee) is responsible for dealing with those risks. Under the Ministry an important role is carried out by the **Office for Money Laundering Prevention and Tax Administration**.

Money Laundering Prevention System related to the use of virtual currencies



Actions in the field of money laundering prevention

ACTIONS

by the auditee

WEAKNESSES DISCLOSED

by the Court of Audit



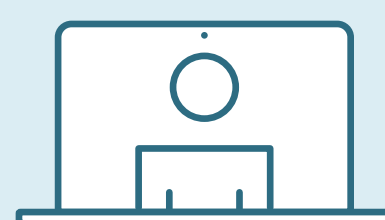
Identification of liable entities in the field of virtual currencies by the legal bases

Identification of liable entities not precise enough, registration of liable entities not prescribed



Raising awareness activities relating to risks of money laundering arising from virtual currencies transactions mainly among commercial banks

Office for Money Laundering Prevention did neither receive any reports on suspicious transaction from liable entities **nor it carried out supervision** of those entities



Video electronic identification made available by the law

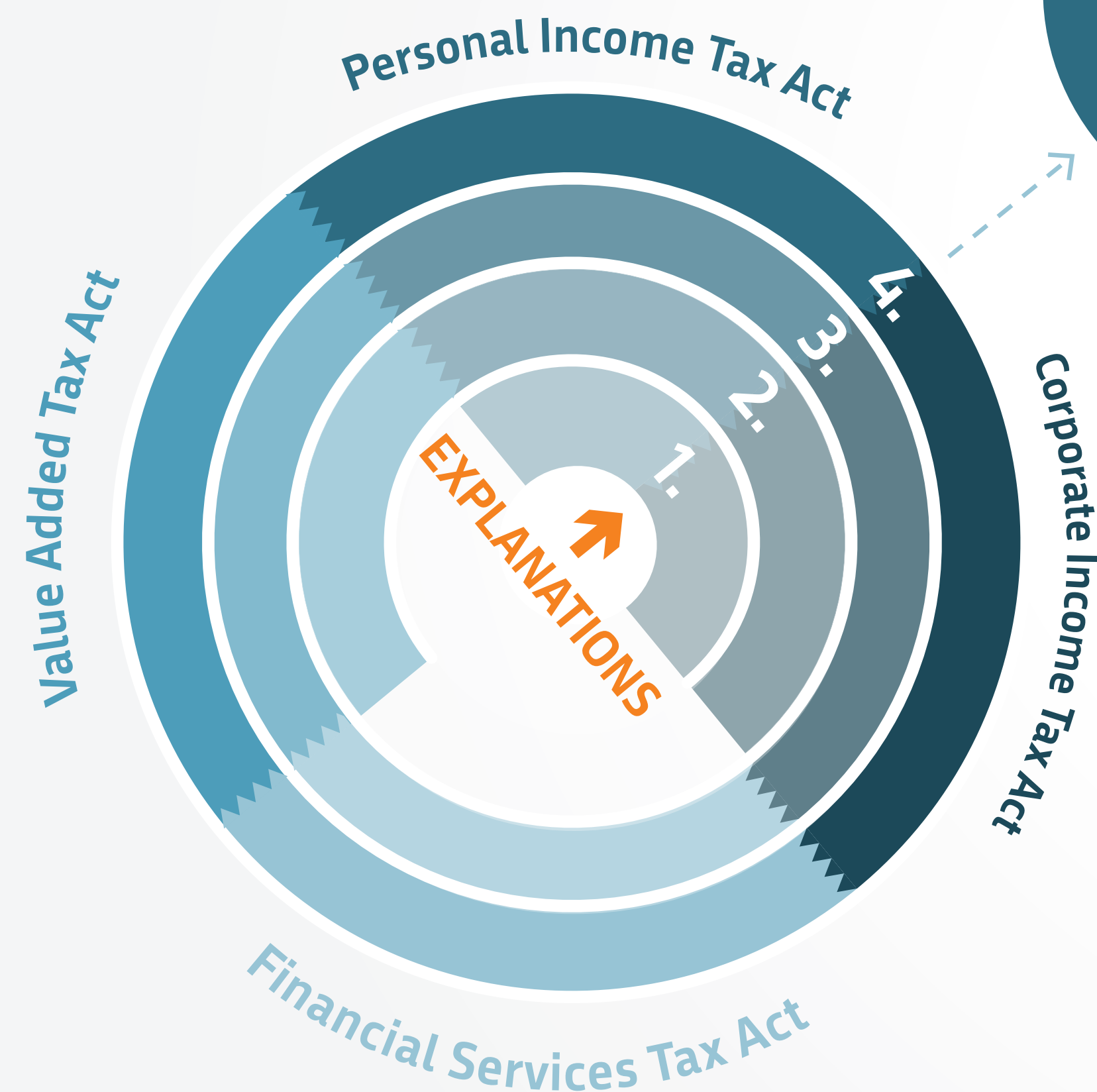
The conditions for video electronic identification use related to virtual currencies transactions **not specified clearly enough**



How are virtual currencies taxed?

In Slovenia, **there was no new legislation adopted** concerning virtual currencies taxation. Interpretation of taxation of business operations related to virtual currencies was provided by explanations of the Tax Administration.


Tax Administration issued 4 versions of explanations.



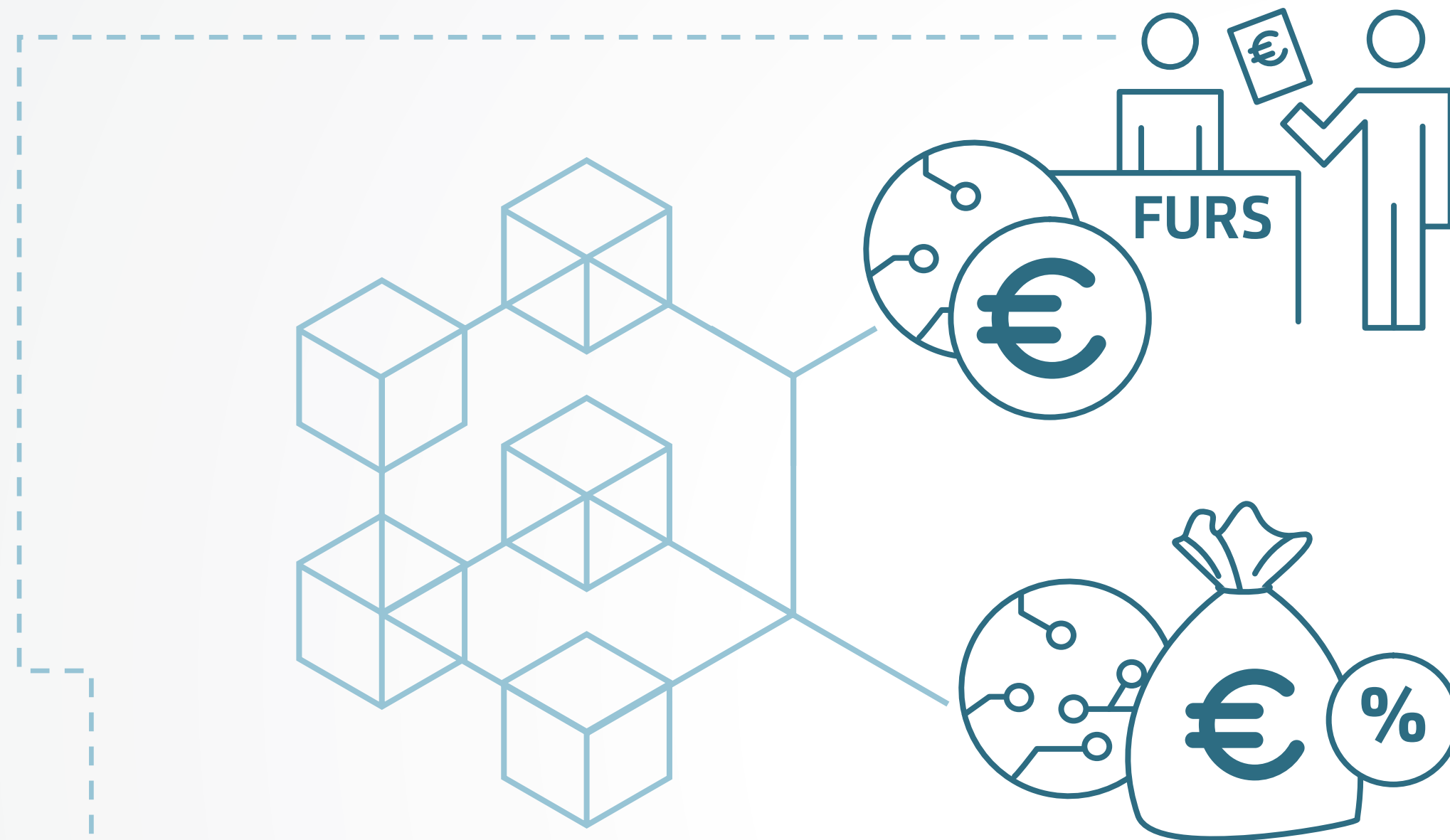
Tax Administration clarified additional extent of legal bases and operations with every new explanation

 **Most operations of virtual currencies was taxed.**

What was taxed?	Personal Income Tax Act		Corporate Income Tax Act	Value Added Tax Act	Financial Services Tax Act
	natural person	natural person implementing operations	resident and non-resident		
revenue from capital obtained by sale of virtual currencies	-	+	+		
revenue from mining of virtual currencies	+	+	+	-	
commission for virtual currency exchange services				-	+
services of exchange platforms (compensation for the use of programme)				+	
services of eWallet				-	+
initial coin offering			+	+	
crypto coins trading	-	+			

 Explanations appropriately define taxation, but **there are still some ambiguities.**

What is the system of tax liability?



The system of reporting on tax liabilities in the field of virtual currency operations is based on **the obligation of the taxpayer to report on revenues from virtual currency transactions.**

At least € 26.7 million of taxes were accounted by Tax Administration in the period until 30 June 2018



Virtual currencies represent **a challenge to tax administrations** due to possibilities of **anonymity of accounts** and **lack of regularity** or **ambiguities of reporting** on revenues.



Tax Administration addresses the challenges mostly by

- education of personnel
- issuing official explanations
- responses to questions
- implementation of supervision
- international cooperation

OPINION OF THE COURT OF AUDIT



The Ministry of Finance was proactive, namely it **timely and correctly approached** to regulating virtual currencies, nevertheless, **it could be even more efficient.**



The Court of Audit proposed several recommendations to the Ministry of Finance, but it **did not demand a response report.**

