

# artax

## NEWSLETTER

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## Crypto currencies

Dear Sir or Madam,

Currently there are over 160 official currencies in circulation; however, only the US Dollar and the Euro are regarded as international reserve currencies. In most countries the banknote monopoly is in the hands of the national or state bank which is purportedly independent. In certain countries this independence can be a farce, and the national bank is at the beck and call of the government. Inflation is at the top of the priority list, in order to reduce national debt. An inflation rate of 5% reduces national debt by half within 13 years!

A national currency is strongly connected to a country. Generally a strong currency goes hand in hand with a flourishing economy. On the one hand, a strong currency leads to challenges for the export industry – as the Swiss economy certainly felt after the Swiss National Bank dropped the fixed exchange rate with the Euro. On the other hand, a strong currency is attractive for investors and a boost for the economy.

Gold and other precious metals are often international substitute currencies, but also goods easy to trade – for example, cigarettes during World War II, or beer in ancient Egypt. What all currencies have in common: their value cannot be measured, as their value is the result of a collective belief in a currency. The result of this belief in the intrinsic value is currency fluctuation. As soon as the Swiss Franc is regarded as strong, it will be bought and its price rises, as soon as it is regarded as weak, it will be sold and its price comes under pressure.

The times of fixed exchange rates are gone, and the promises of the national banks to underpin a currency with gold are a thing of the past. Nowadays only so-called synthetic currencies are in circulation, making the intrinsic value a matter of pure collective belief. The same applies for gold. It is only valuable because of its rarity. No other reason for its intrinsic value exists. The same also applies to the most valuable stamp of the world, the "Two Pence Blue", or to paintings, antiques, and so on. An expensive painting best demonstrates this mechanism. It is exhibited in a museum, many people view and admire it, its price is published in all the newspapers, and the owner is happy. But then it turns out to be a fake, almost impossible to notice. The painting's value plummets, and it is banished from the museum into a cellar.

Although numerous people have loved and admired the painting, and only a handful of experts have been able to notice the difference to the original, its value is now nil. The belief in its value has been lost. Nevertheless, the painting is still beautiful, decorative and expressive.

### **The digital currency**

Crypto currencies, above all Bitcoin, are new. Currently there are around 200 more or less successful crypto currencies with differing tradability. The advantage of these currencies: transactions are purely electronic, either without any costs or with only minimal costs involved. Particularly in Third-World countries, undreamt-of possibilities open up. Imagine you are on a journey into the midst of a jungle and would like to buy something, but the seller has only little cash and no change for a 100-Dollar-bill. The seller takes his mobile phone, you connect via Bluetooth or a network and exchange the exact amount of "xy-coins" you agreed upon. Perfect. No bank account is necessary, nor payment orders or financial infrastructure. Many people throughout the world could find crypto currency useful – either as parallel currency next to a state-regulated currency, or when foreign currencies are banned. Some countries have banned Bitcoin.

Blockchain technology helps create an individual blockchain that has been cryptographically secured. Thus, a secured succession of change of ownership has been achieved. The cryptographic encoding of the currency guarantees security. Once again the intrinsic value of this currency lies in the belief in it. Once this crypto currency is associated with security, reliability and transparency, its value increases and demand goes up. Further, it creates transparency as to the amount of money in circulation, for exchange rates, for trade information and a lot more. The current crypto currencies have differing qualities. The financial supervisory authorities have no sway over crypto currencies, as these are not actually currencies. Strictly speaking, such Coins are a theoretical commodity, an electronic mathematical singularity.

Using a blockchain network requires immense processing power and energy. This is where the crypto suppliers are making their big investments. Compliance and supervision by states are equally a challenge. Whether crypto currencies are ecologically sustainable needs to be evaluated in comparison to conventional currencies.

Crypto currency is predestined to be the cleanest money in the world. If crypto currency is run via blockchain technology, the flow of money can be traced without any break, from the moment of the creation of the Coin, the electronic singularity, to its current owner. Countries are being encouraged to start getting interested in these currencies, and in the suppliers of blockchain technology.

For investors, crypto currencies are a "nice to have" and less a strategic portfolio approach. The potential of currencies lies above all in developing countries. Here the same will happen just as with the telephone: from zero, bypassing fixed lines, to wireless communication; from lack of an actual financial infrastructure straight to crypto currency, with smartphones as payment tool! The emerging nations' bank is the mobile phone. The value of the currency is determined by the belief in the crypto currency!

Still unanswered are the questions about fiscal treatment. Crypto currencies are not financial assets but at best a collection. Interest rates are not paid. Suppliers are not allowed to offer exchange rates, otherwise they become banks. Are profits realised by e-Coins tax-free? At the moment, states are still adopting a critical attitude towards crypto currencies, and have doubts as to whether they should get involved. Whatever happens, the state will raise tax on income. In dubio pro fisco (where there are doubts, the tax authority will profit).

Kind regards

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