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Cryptocurrencies in Nigeria: Its Place in Entrepreneurship, Accounting, and Taxation

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ABSTRACT

Purpose: The objective of this paper is to theoretically examine the place of the use of cryptocurrencies in entrepreneurship, accounting and taxation in Nigeria.

Design/methodology/approach: The methodology used is library-based research through review of related extant literature which informed the position taken in this paper. From the critical review of literature, it can be inferred that despite the novelty and attraction these digital currencies promise, it is not without inherent limitations, but requires the needed legal and regulatory framework in order for it to enhance security of the value of money of the owners who may want to key into it usage.

Findings: It is therefore recommended that the relevant national and international money market/financial regulators and authorities should take proactive steps in coming up with the needed framework to help eliminate any doubt that may be associated with the use of cryptocurrencies.

Paper type: Research Paper.

Keyword: *Cryptocurrencies, Accounting, Entrepreneurship, Fiat, Taxation*

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I. INTRODUCTION

The increasing momentum in innovativeness of the digital world appears to have gradually transcends into the money market to the extent that is capable of rendering paper money (fiat/notes) to a near redundance considering the recent popularity the cryptocurrencies have garnered in the global financial environment. This development may have been or is being highly encourage by advancement in Information and Communications Technology (ICT) coupled with the proliferated trend in globalisation which has resulted in digitalised global economy. In the same vein, the new-normal triggered by the recent outbreak of corona virus 2019 (covid-19), wherein different mitigating strategies were evolved including the need to limit contacts (social distancing) between persons could be another rationalisation for why cryptocurrencies are likely to make significant breakthrough as a legal tender for making transactions in the near future. It is however pertinent to note that transactions carried out with cryptocurrencies may have ripple effect on entrepreneurship development, accounting disclosures and imposition of tax on the taxable income derivable from the said cryptocurrency-enabled transactions.

However, the change in the ways transactions is being carried out associated with the emergence of digital financial technology (cryptocurrency) is in tandem with the doctrine of innovativeness which is the hub of entrepreneurship, and apparently further justification of the definition of entrepreneurship as the process of pooling together unique package of resources to exploit an opportunity. The ability for the entrepreneurs and other forms of business establishments to properly account for the value of these transactions in monetary terms, as well as meet their compulsory statutory obligations through taxation could pose a significant constraint to the entrepreneurs, professional accountants, and relevant tax authorities. This is the major crux of this paper.

Basu et al. (2018) sees cryptocurrency as a new concept of money and can be termed as digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. According to Basu et al. (2018) they are disruptive economic innovations that have the potential to revolutionize the current economic structure and change how banks and financial institutions are operating now, maintaining that it is a digital or virtual currency that uses cryptography for security.

However, the introduction of these different forms of digital currencies are probably not without shortcomings, and such may have attendant effects on the economies of different countries across the world as well impact on government fiscal and monetary administration. Furthermore, the inability to exert strict regulations over the use of digital currency as against what the situation is with fiat (paper) money is likely to raise concerns about growth of Small and Medium-scale Enterprises (SMEs) which is the dominant entities that propagates entrepreneurship in most nations of the world, largely due to the fact that there is yet sophisticated accounting framework needed to capture the reporting process of this paradigm shift in the way money will be exchange, thus will also raise bottleneck in the process of taxing the revenues accruing to the relevant businesses by different taxing jurisdiction. This assertion is in tandem with the views expressed by Bagus & de la Horra (2021) who submitted that were cryptocurrencies to become widespread media of exchange, governments capacity to undertake monetary, fiscal, and drug policy would be undermined.

The impression created in the above background is suggestive of the fact that government and financial regulators across the globe are yet to authoritatively establish a framework for regulating cryptocurrency, with its operationability apparently being control on the basis of local/international conventions or treaties. Mere reliance on treaties as basis for the use of cryptocurrency in aiding exchange of goods or services might be sufficient grounds for its acceptability by the contracting parties but raises ethical questions. Consequently, this conceptual paper is an attempt to understand the place of cryptocurrency in the Nigeria context particularly as it relates to entrepreneurship, accounting, and taxation.

A. Cryptocurrency

Cryptocurrencies are based on block chain technology, and the block chain or public ledger means that every user can see every transaction. The first Cryptocurrency to begin trading was Bitcoin back in 2009 Basu et al. (2018).

Basu et al. (2018) opined that there are hundreds of virtual currencies in the market, with the popular ones classified into four major categories: i). Bitcoin, which is the first widely accepted virtual currency, being a trendsetter, and pioneered the concept of cryptocurrency in the global economic market; ii). Ethereum which is second most popular currency launched back in 2015; iii). Litecoin which is ranked third in the crypto market in terms of acceptance and launched in the year 2011 and uses the same fundamental structure as bitcoin and thus usually referred to as 'silver to bitcoin's gold'; and iv). Ripple which works on consensus ledger which does not need mining process to be involved, reducing utilization of computing power and network latency.

II. METHODS

A. Cryptocurrencies and Entrepreneurship Development

The use of cryptocurrencies has some issues in the context of entrepreneurship. Nadeem (2017) found in his study that bitcoin has value because both the Pygmalion entrepreneurs and customers believe that it has value, and it is likely to be among mainstream global viable currencies. However, Nadeem (2017) highlighted those new digital technologies have transformed the nature of uncertainty inherent in entrepreneurial processes and outcomes as well as the ways of dealing with such uncertainty, hence raising important questions at the intersection of digital technologies and entrepreneurship-on digital entrepreneurship.

Based on Laukkanen et al. (2016) argument that market orientation and brand orientation are usually modelled as distinct antecedents of business performance, social entrepreneur’s betting prospects on the Bitcoin is likely to become a self-fulling prophecy, hence increasing the high degree of risk associated with the use of cryptocurrencies by the entrepreneur.

Meanwhile Nadeem (2017) asserted that the liquidity nature of new technologies, and collaborative business models are fostering a new form of entrepreneurship, and that the social entrepreneurs are challenging the logic of formal market structures and particularly traditional financial institution systems and hence the rise of cryptographic payment systems.

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B. Accounting for Cryptocurrencies Transactions

According to Sundqvist & Hyytiä (2019) there are many challenges which need to be resolved when it comes to accounting for cryptocurrencies. There are issues present in all four themes, but the main challenges which were identified revolved around asset classification, valuation, disclosures, and risk factors. Sundqvist & Hyytiä (2019) submitted that one of the main challenges brought up in literature is what type of asset cryptocurrencies can be classified as. The possible asset classifications discussed by the literature are inventory, cash, cash equivalents, financial instruments, and intangible assets (AASB, 2016, p. 8). The guidance from IFRIC suggests that the possible applicable standards are IAS 2, inventory or IAS 38, intangible assets (IFRS, 2019). However, there are contrary 5 views of whether these asset classifications provide relevant and useful information to financial statement users or not.

Observe that national accounting authorities around the world have expressed the need for guidance to avoid a patchwork of inconsistent rules used globally. As of today, there are no available IFRS standards regulating the accounting requirements for cryptocurrencies (International Accounting Standards Board [IASB], 2018, p. 7). The main challenge for prospective regulators is where to impose constraints (Böhme et al., 2015:231). Countries such as China sees cryptocurrencies as illegal, despite the fact that it is one of the world's biggest sources of cryptocurrency mining (Reuters, 2018; Rooney, 2018).

III. RESULTS AND DISCUSSION

A. Taxability of Cryptocurrencies revenue

Marian (2013) opined those virtual currencies present regulators with significant challenges, and in line with fundamental issues raised by different authorities in the United States of America (USA), and acknowledged that it is reasonable to expect shift to occur in the foreseeable future due to the contemporary convergence of two unrelated, yet parallel, processes. These processes are the increasing popularity of cryptocurrencies, of which Bitcoin is the most widely recognized example. The first process has features which includes the recognition of Bitcoin as a form of private money in Germany in 2013, preceded by a ruling of a federal judge that for purposes of U.S. securities regulation, Bitcoin is indeed "money", while the second process has features such as cooperation by governments around the world with their foreign counterparts in their battle against offshore tax evasion

Accordingly, Marian (2013) noted that cryptocurrencies possess the traditional characteristics of tax havens: earnings are not subject to taxation and taxpayers' anonymity is maintained, and that it also possesses one added value which makes it operations independent of existence financial institutions, thus capable of defeating governments' recent successes in addressing offshore tax evasion. He noted that with the increasing momentum of cryptocurrencies, tax-evaders who hitherto adopt the use of offshore bank accounts in tax-haven jurisdictions could opt out of traditional tax havens in favour of cryptocurrencies, hence admitting that there are inherent weaknesses in governments attempt to aptly resolve the issues of tax evasion associated with the use of cryptocurrencies.

To further buttress how cryptocurrencies could serve as catalysts for tax evaders, Marian (2013) chronicles the different implicating developments in the USA such as an indictment on May 23, 2013 by the U.S. federal government brought against the operators of Liberty Reserve, a popular virtual currency, charging the operators with money laundering and operating an unlicensed money-transmitting business; a public report by the Government Accountability Office ("GAO") which explore the potential tax-compliance risks associated with virtual currencies and economies; legislators have also taken particular interest in one type of virtual currency-Bitcoin; and the U.S. Senate Committee on Homeland Security on August 13, 2013, announced plans to start an inquiry aimed at establishing a regulatory framework for Bitcoin.

Bianchini & Kwon (2020) noted that the Italian Revenue Agency was the first authority to issue a specific directive in 2016, exempting buyers of Bitcoin from VAT and subjecting crypto-exchanges to normal corporate taxation (IRES e IRAP). With Resolution 72/E of 9 September 2016 (Agenzia delle Entrate, 2016:58), the revenue agency answered to the question posed by a company willing to constitute one of the first Italian cryptocurrency exchanges, Conio18. The Revenue Agency, referring to a decision of the European Court of Justice (C-264/14, 22 October 2015) recognised that the acquisition of Bitcoin in exchange for "fiat" currency was to be considered a currency exchange and thus not subjected to Value Added Tax for the individual buyer.

B. Issues and Challenges on the use of cryptocurrencies

The review of literature carried out in the preceding sections is clear indication that the use of cryptocurrencies is riddled with fundamental issues and challenges in the present circumstances. The issues and challenges could be that: i). Not centrally governed by national or international central bank; ii). Who takes responsibility in the events of fraud? iii). The SMEs in Nigeria and most sub-Saharan Africa countries are usually

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dominated by illiterates and may not be able to sufficiently operate the interphase or platform of the blockchain technology, thus may impede the much sought-after SMEs-induced industrialisation and the desired development status; iv). The views in literature is suggestive of the fact that there is yet an internationally accepted framework/regulations to regulates the use of cryptocurrencies; a situation that may raise integrity issues from the point of view of willing investors; v). Problem with the creation of accounting standards to aid financial disclosures on transactions carried out with cryptocurrencies; vi). Differences in existing currencies (fiat/note) among different countries of the world may inhibit the complete move into cryptocurrencies as a legal tender for financing transactions largely due to the fact that most countries might be unwilling to relinquish their traditional currencies and migrate into the use of cryptocurrencies; and vii). How to properly delineate taxing rights and jurisdictions, as well as what transactions should be subjected to tax or otherwise.

IV. CONCLUSION

This paper is a conceptual review on the place of cryptocurrencies in Nigeria in terms of the issues and challenges its usage is likely to precipitate in entrepreneurship, accounting and taxation. Technological innovations have caused series of changes in the ways organisations, individual, and firms carry out their exchange of goods or services and the ways and manners the monetary involvements are transacted, wherein cryptocurrencies appear to be gathering momentum and gaining international recognition, despite the fact that there is still so much to be done in terms of its regulations and legal protection. However, with the review carried out in this paper, it can be inferred that despite the novelty and attraction these digital currencies promise, it is not without inherent limitations, but requires the needed legal and regulatory framework in order for it to enhance security of the value of money of the owners who may want to key into its usage. It is therefore recommended that the relevant national and international money market/financial regulators and authorities should take proactive steps in coming up with the needed framework to help eliminate any doubt that may be associated with the use of cryptocurrencies.

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