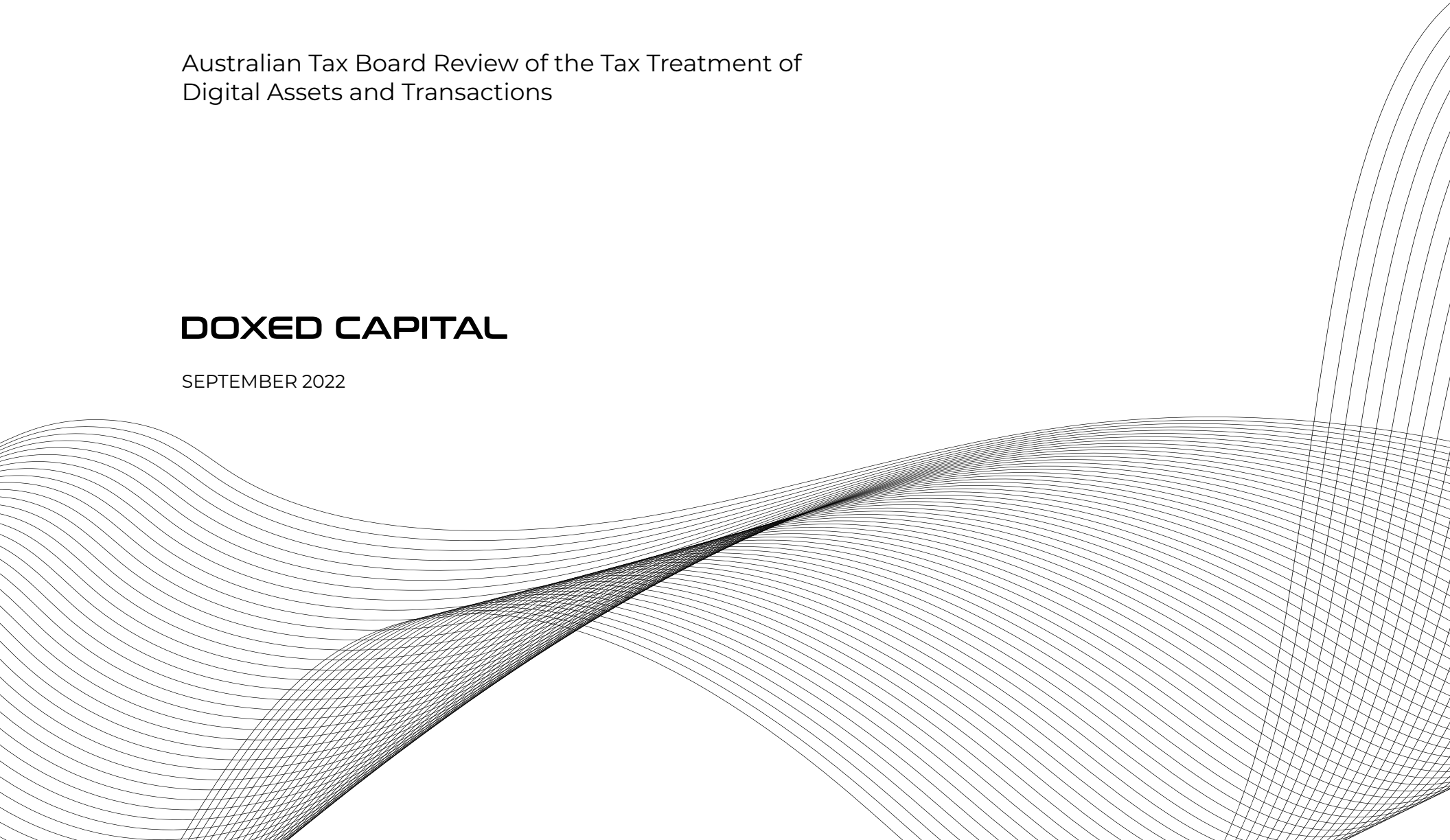


Submission

Australian Tax Board Review of the Tax Treatment of
Digital Assets and Transactions

DOXED CAPITAL

SEPTEMBER 2022



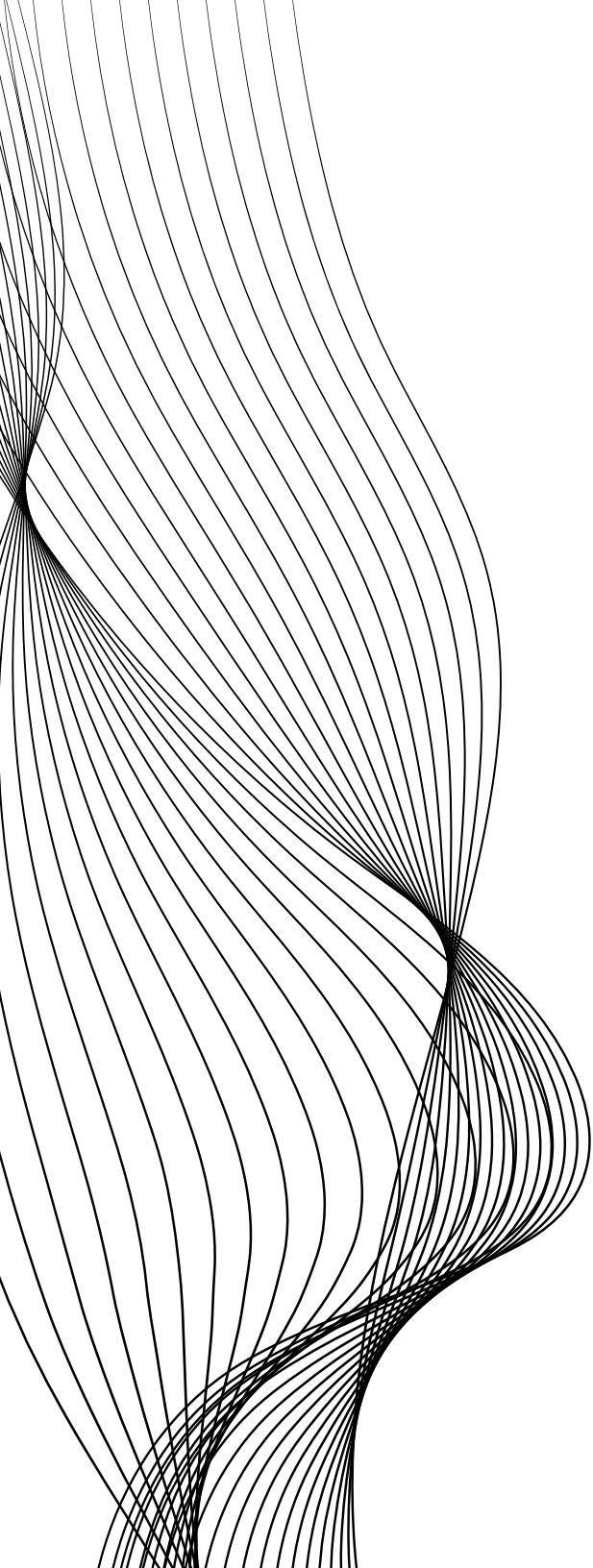


Positioning Statement

As blockchain and cryptocurrency (crypto) analysts we are motivated to contribute to the Australian Tax Board's review of the Tax Treatment of Digital Assets and Transactions.

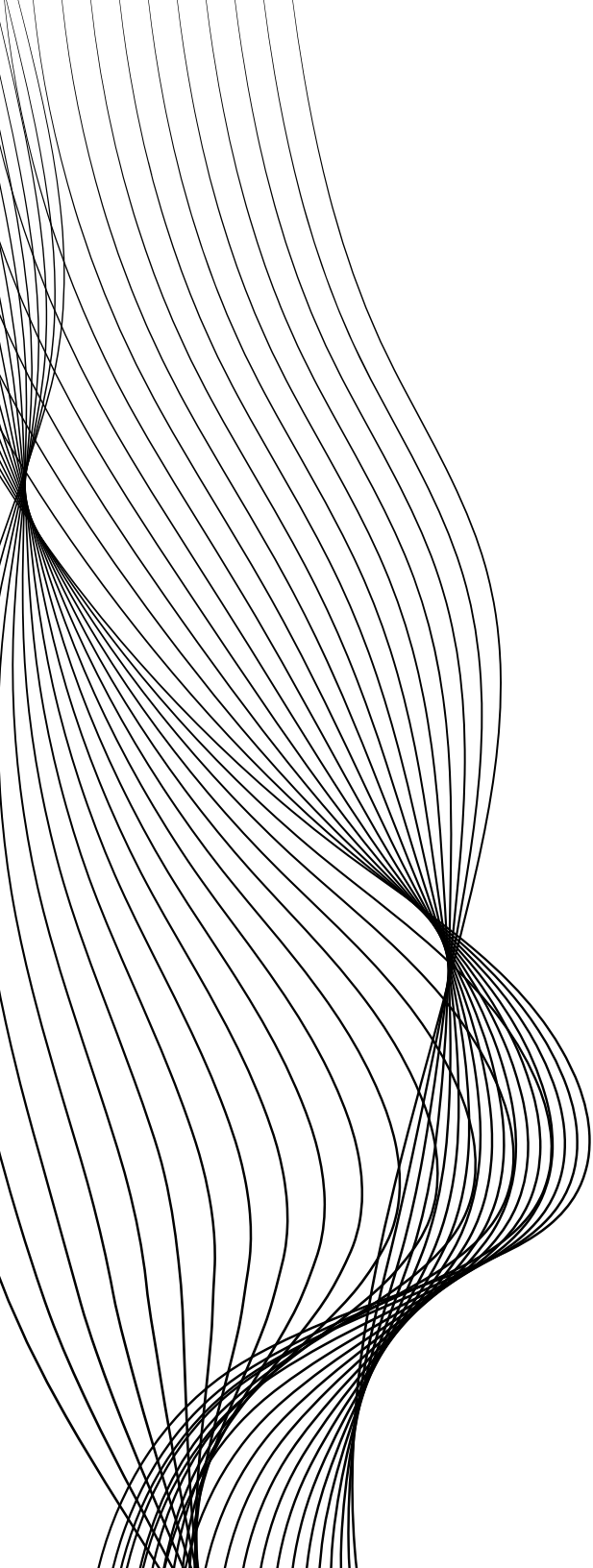
Despite all of its promise, the blockchain and crypto industry needs regulatory reform to provide a reasonable structure that protects individuals, stimulates innovation and secures a strong and growing role for Australia in the blockchain economy.

Internationally, the roll-out of blockchain and crypto regulation is spreading across the global community with respect to stablecoins, exchanges, trading, staking, lending and borrowing, currency, reporting and taxation.



Whilst regulating the economy through monetary policy and interest rates continues to predominate in Australia and other western countries, the importance of fiscal tools such as taxation to influence industry growth and economic development should not be underestimated.

Accordingly, a balance needs to be struck that allows for the appropriate taxation of digital assets, yet avoiding excessively onerous or heavy-handed regulation that risks stifling innovation and reducing our flexibility to adapt to change in this fast evolving digital asset sector.



Making the most of this blockchain digital asset opportunity requires a scale of policy change that is vast in its undertaking, including legislation, regulation, industry policy, consumer protection, organisational culture change and others.

Changes, that need to be supported by a clearer understanding of what the blockchain and crypto asset sector is and also about the types of transactions that are taking place.

In order to play our part in tackling this digital asset information challenge, we have deliberately structured our submission as a resource that provides a number of crypto and blockchain definitions in the hope it may be useful to provide greater clarity and understanding about this engaging financial sector.

A handwritten signature in black ink, reading "Damian Amamoo". The signature is fluid and cursive, with a prominent initial 'D'.

Damian Amamoo

Founder

Doxed Capital

Blockchain Definitions



Acknowledgement of Country

We would like to acknowledge the Aboriginal peoples of the Eora Nation who occupied and still live on the lands where this resource is published.

Doxed Capital
NSW, Australia

Disclaimer!

None of the definitions in this resource should be construed as financial advice. Crypto assets can be volatile and high risk.

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Definitions

Blockchain

A connected online database made up of nodes that work together via consensus to process transactions and record information.

Cryptocurrency

The token of exchange for a given blockchain.

Layer 1

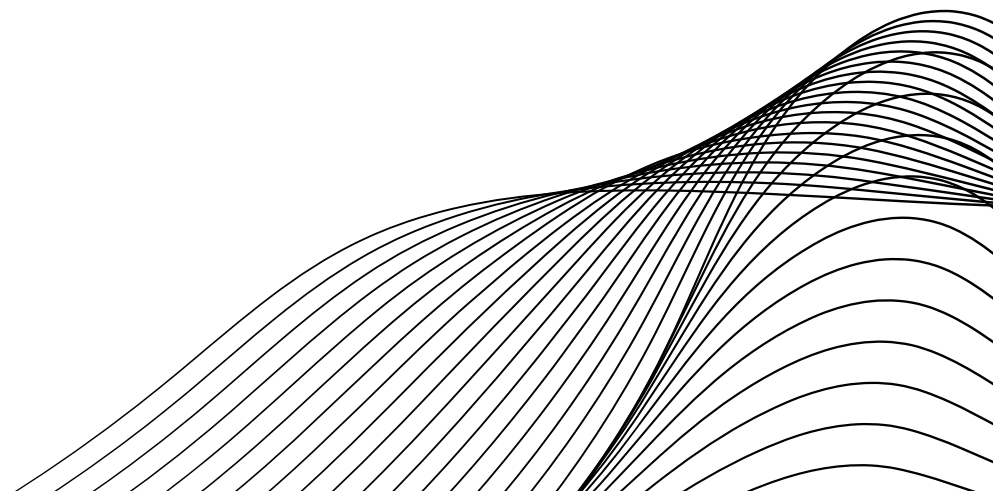
A blockchain or operating system environment that provides an ecosystem for the development of DApps.

Layer 2

A blockchain or blockchain protocol that delivers increased efficiency, speed and scalability for a given layer 1 blockchain.

DApp

An application that is built on top of a given blockchain ecosystem to provide a certain service or utility for its users.





LAYER 3
DAPP



LAYER 2
PROTOCOL



LAYER 1
BLOCKCHAIN

Definitions

Crypto Wallet

A digital wallet that allows for the sending and receiving of crypto assets. Crypto wallets can be online (hot wallet), or offline, via a specially configured USB (cold wallet).

Crypto Wallet address

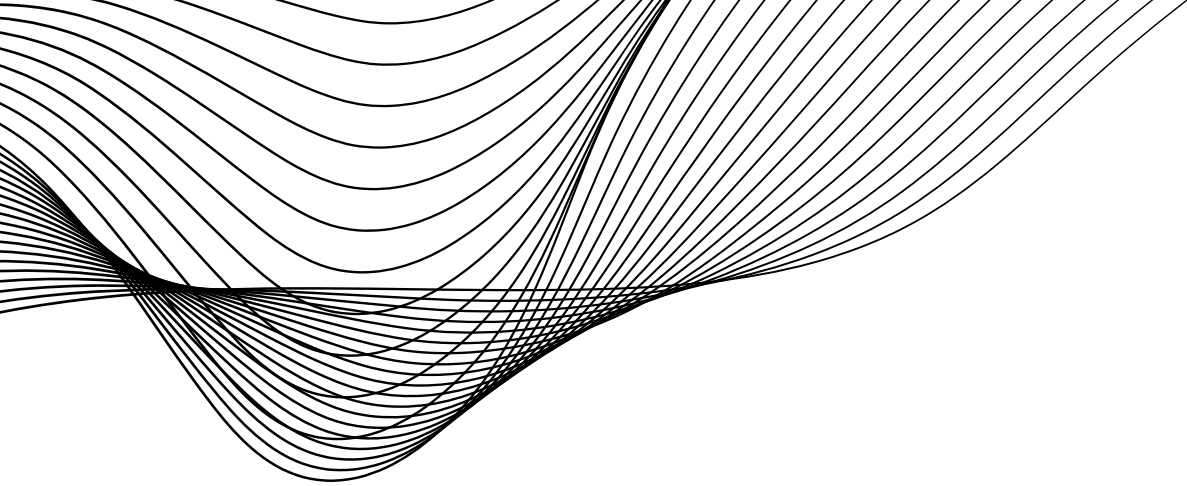
A blockchain-specific wallet address that allows for the sending and receiving of crypto.

Centralised Crypto Wallet

A crypto wallet that is provided for an individual or organisation as part of a service offered by a centralised crypto exchange.

Decentralised Crypto Wallet

A crypto wallet that facilitates the independent custody of an organisation or individual's crypto assets that are not linked to a centralised exchange. Decentralised crypto wallets are usually offered as Internet browser extensions and require a password to access and a seed phrase to restore.



Definitions

Centralised Exchange (CEX)

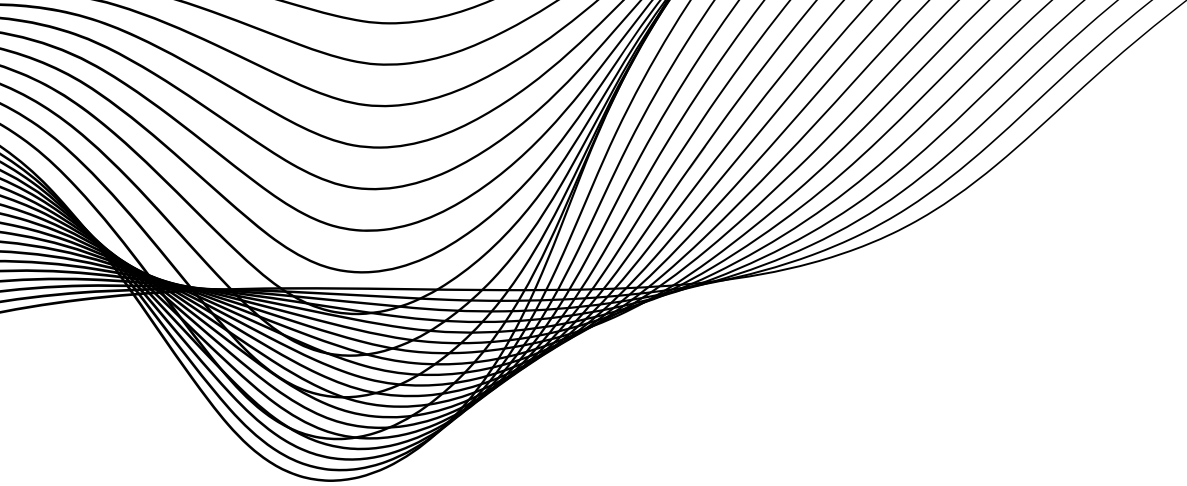
An online cryptocurrency exchange that conducts any number of the following activities:

- **Onramp:** Exchange of Australian dollars for crypto (AUD in)
- **Offramp:** Exchange of crypto for Australian dollars (AUD out)
- **Deposits and Withdrawals:** Deposits and withdrawals of cryptocurrency
- **Spot:** Market purchases of crypto using Australian dollars, US dollars or crypto
- **Perpetual:** Leveraged contracts that facilitate the longing and shorting of crypto
- **Staking:** The depositing of crypto into a smart contract in return for a promised reward or Annual Percentage Yield (APY)

Definitions

Centralised Exchange (CEX) cont'd

- **Lending:** Lending of crypto to a borrower by using their crypto assets as staked collateral
- **Token Launch:** Launching of crypto tokens
- **Crypto Education:** Trader education about crypto
- **Security:** Know Your Customer (KYC), 2-factor authentication, anti-phishing tools, Anti Money Laundering (AML)
- **Customer Support:** Usually limited
- **Blockchain Development:** Exchanges may develop their own blockchain and cryptocurrency



Definitions

Centralised Exchange (CEX) cont'd

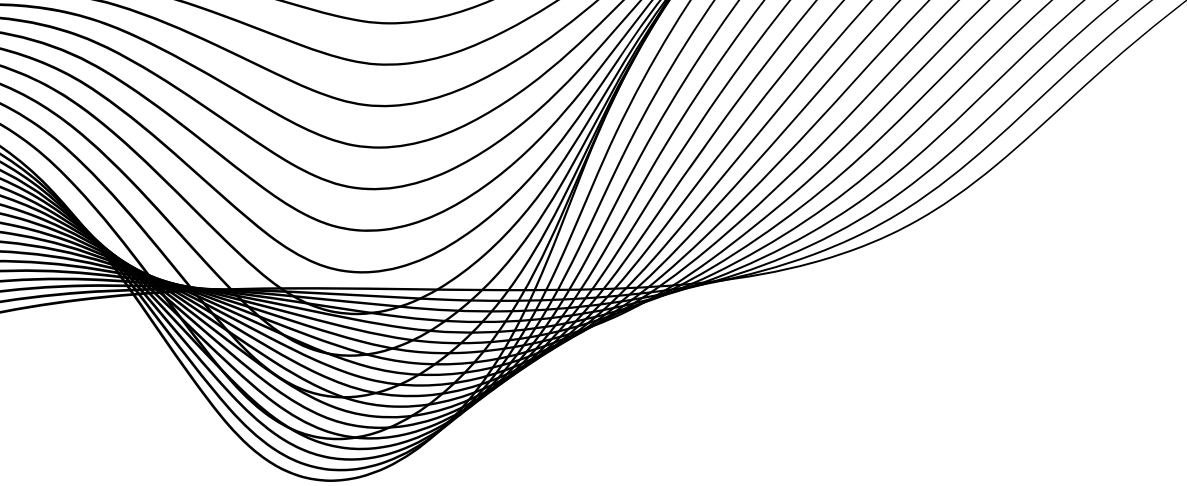
- **Crypto Investment:** Many exchanges undertake investment in start-up crypto projects, especially with those who are building DApps using the blockchain of the exchange
- **NFT:** Non-Fungible Token or one-off crypto token or digital asset that may be minted in a number of ways
- **NFT Market:** A online platform that facilitates the buying and selling of NFTs

Definitions

Decentralised Exchange (DEX)

A permissionless, online cryptocurrency exchange that conducts any number of the following activities:

- **Decentralised:** Permissionless, borderless access for anyone connected online with a compatible wallet
- **Exchange:** Purchase or swapping of one cryptocurrency for another
- **Liquidity provision:** An opportunity for individuals to earn fees in return for providing crypto asset liquidity
- **Deposits and Withdrawals:** Deposits and withdrawals of cryptocurrency
- **Staking:** The depositing of crypto into a smart contract in return for a promised reward or APY
- **Lending:** Lending of crypto to a borrower by using their crypto assets as staked collateral



Definitions

Decentralised Exchange (DEX) cont'd

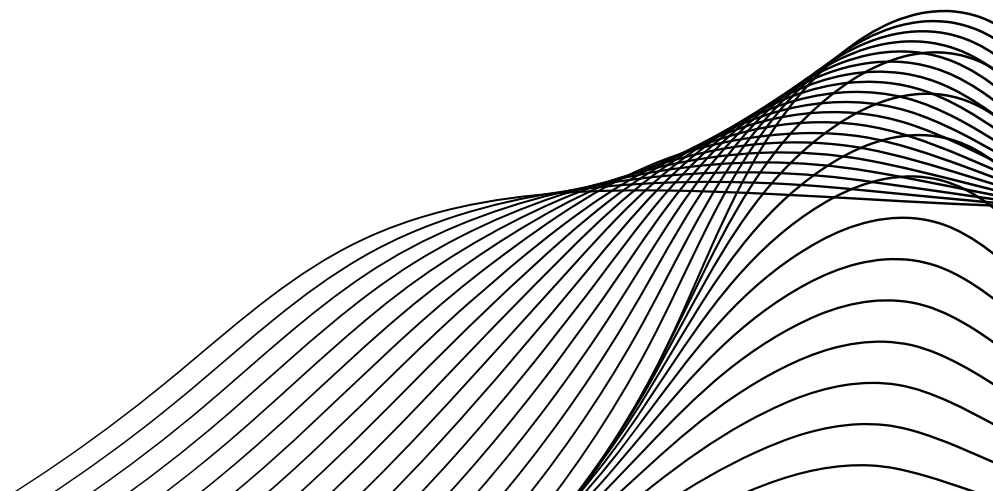
- **Token Launch:** Launching of crypto tokens
- **Native Token:** DEX's may develop their own cryptocurrency
- **NFT:** Non-Fungible Token or one-off crypto token or digital asset that may be minted in a number of ways
- **NFT Market:** A platform that facilitates the buying and selling of NFTs

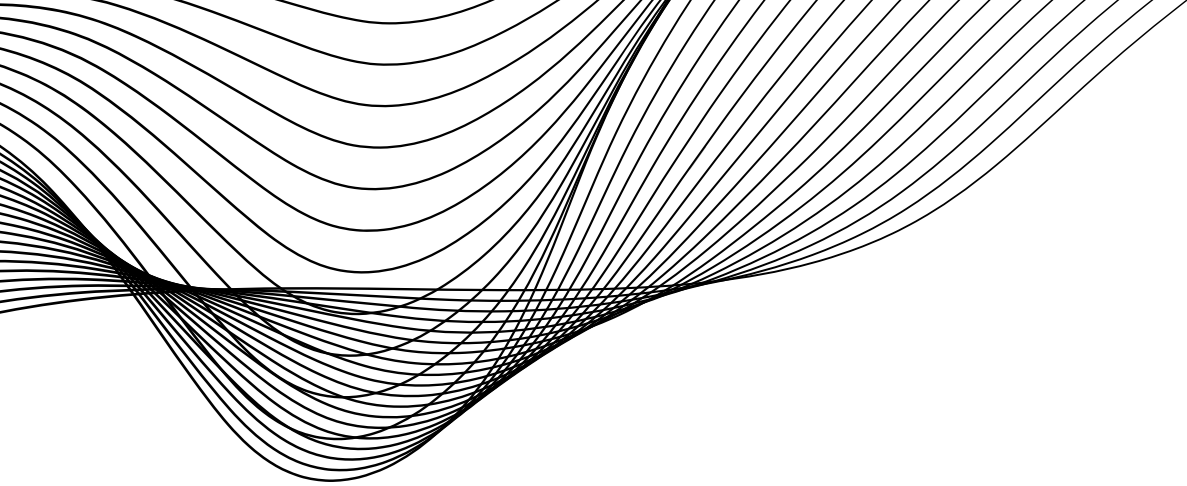


Definitions

Smart Contract

A blockchain-enabled contract written in code that is able to perform a number of tasks automatically, such as a withdrawal or deposit of funds, payment to a third party, accrual of interest and so on. The cryptographic keys to edit the smart contract may be retained by the original developer. Or the developer may choose to burn (or renounce) the keys to the contract so it is no longer editable.





Definitions

Non-Fungible Token (NFT)

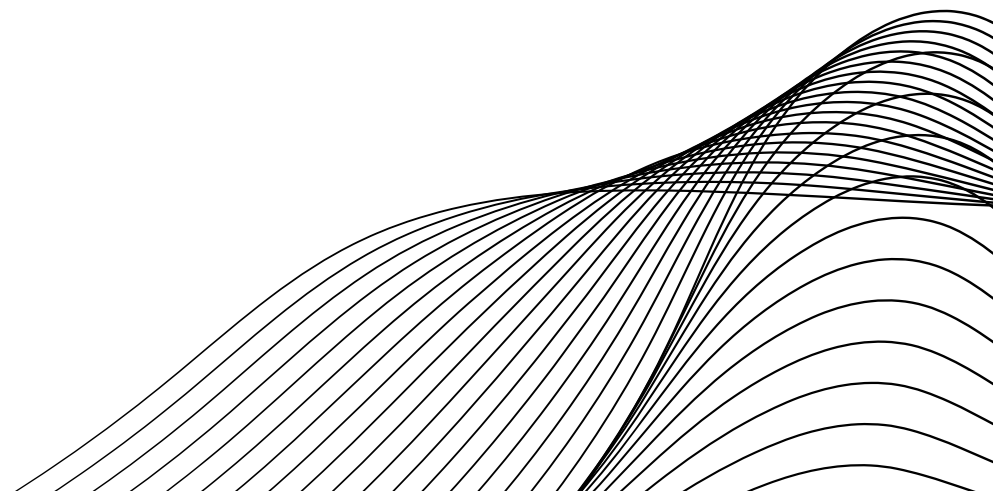
A blockchain-specific crypto token that is one-of-a-kind (non-fungible). NFTs are created by the minting of a file (eg image, movie file, sound file) on a blockchain that becomes a time-stamped and publically accessible token record of the file's details, edition, properties and other information provided by the minter.

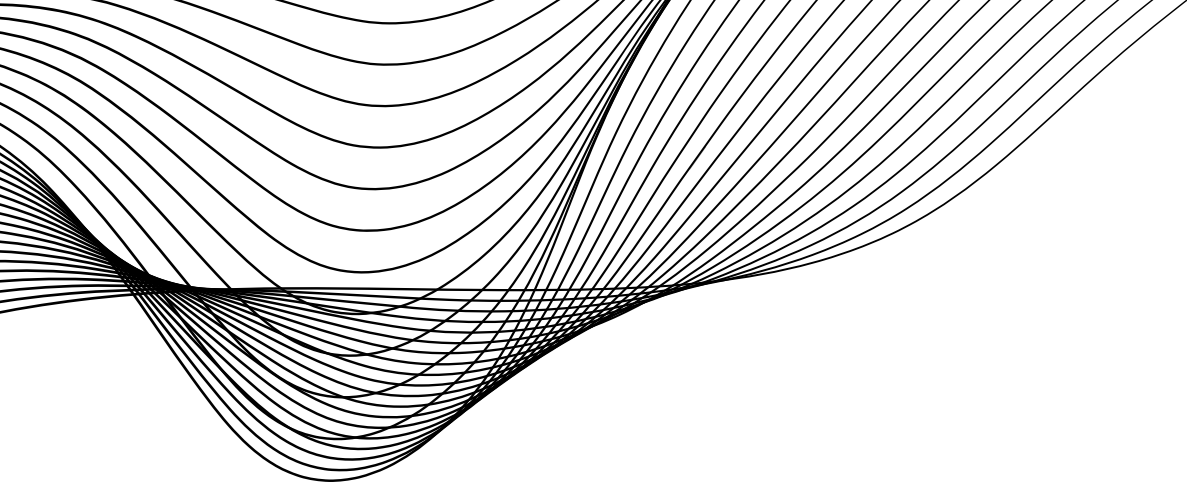
Definitions

Airdrop

A free allocation of crypto assets that arrives into an individual or organisation's crypto wallet.

An airdrop maybe given to a person or organisation because they hold a certain digital asset in their crypto wallet and are being rewarded for holding that asset over a given period of time. Or, they are receiving an airdrop as a reward for being an early participant in, or supporter of, a crypto or blockchain project. Airdrops are usually given in the form of the project's crypto asset, a related crypto asset or an NFT.





Definitions

Staking Platform

An online cryptocurrency platform that offers a range of crypto interest Annual Percentage Yield (APY) rewards in return for the deposit of certain cryptocurrencies into a smart contract. APY rewards may be paid in the same crypto as the deposit currency, ie “stake A get paid A”. Or else they may be paid in an alternative cryptocurrency ie “stake A get B.” Staking carries risks because while an individual or organisation’s tokens are in the staking contract they are no longer in their own wallet or custody.

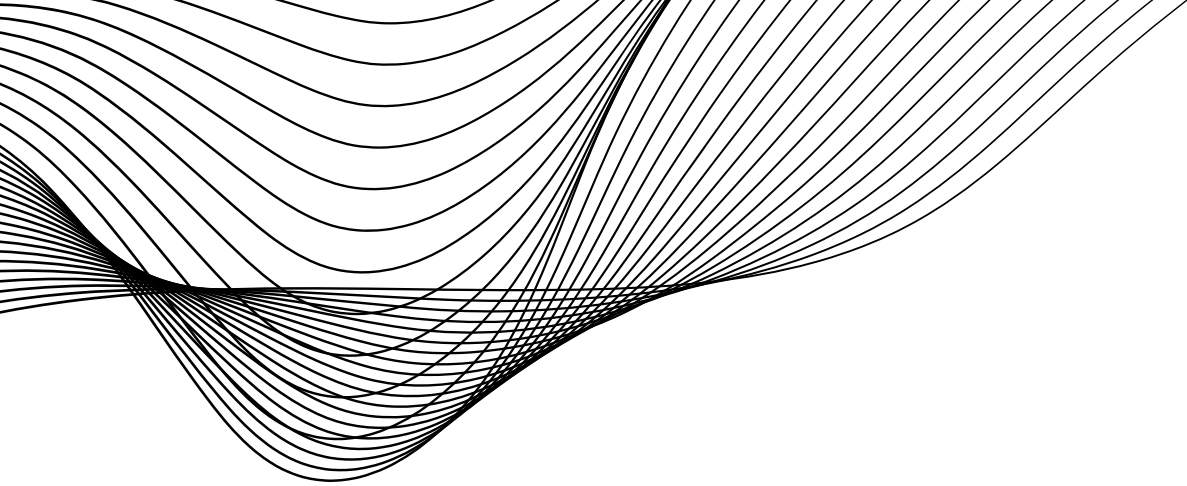
Definitions

Decentralised Finance (DeFi)

Decentralised Finance (DeFi) is made possible by smart contracts that incentivise people to deposit and provide crypto liquidity into an online platform that facilitates the trading, staking, borrowing or lending of these crypto asset(s) by others.

Liquidity Providers (LP)

Liquidity Providers (LP's) earn fees and rewards by depositing crypto into a smart contract liquidity pool. The size of the rewards and fees earned by LP's are related to the transaction volume in the pool and proportional to their stake of the total pool size.



Definitions

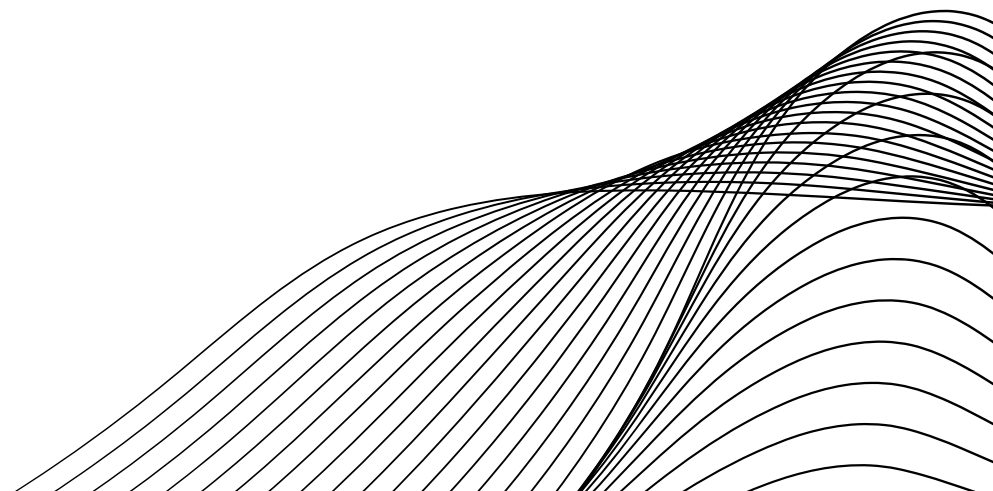
Yield Farming

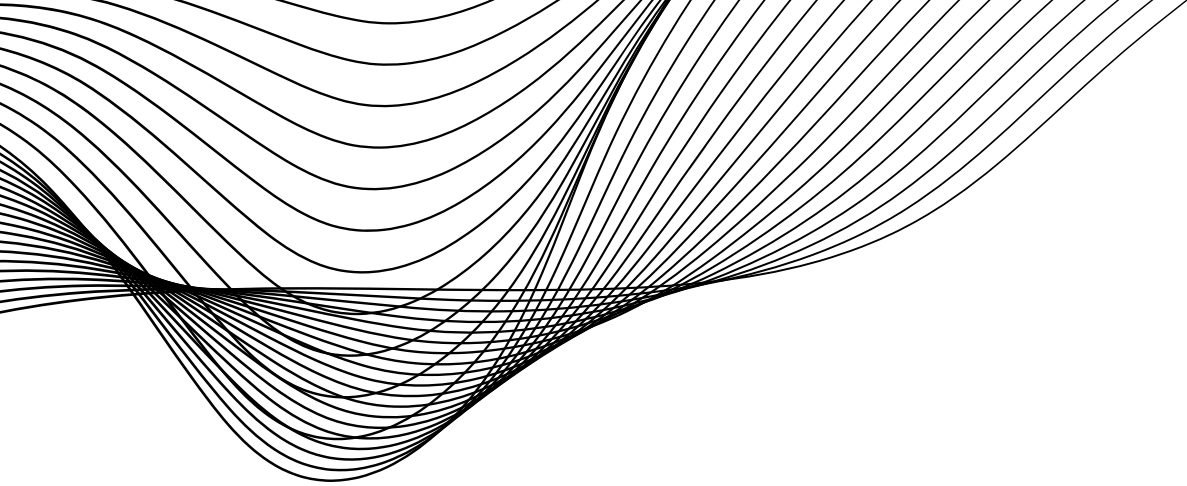
A Decentralised Finance (DeFi) practice of providing liquidity for a trading pair and in return receiving crypto Liquidity Provider (LP) tokens which can be staked in return for an APY crypto interest rate that is paid in the same token or another nominated token.

Definitions

Impermanent Loss

Occurs when a Liquidity Provider (LP) withdraws a smaller amount of total token value from a liquidity pool than what he or she added in the first place, due to unfavourable price movements in the tokens during the deposit period. The loss is permanent.





Definitions

Proof of Work (POW)

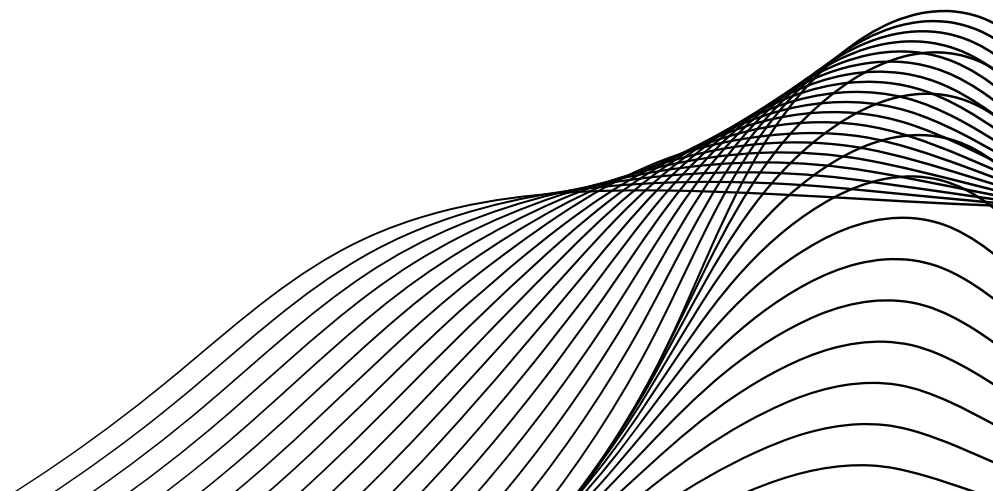
The method by which some blockchains achieve consensus between nodes that makes transactions possible. A proof of work blockchain requires miners to compete with each other solving cryptographic puzzles using computer hashpower in the hope of winning the right to verify the next block and receive a reward.

Proof of work is an energy intensive process that provides the highest possible levels of security for a blockchain network. The best-known proof of work blockchain is Bitcoin.

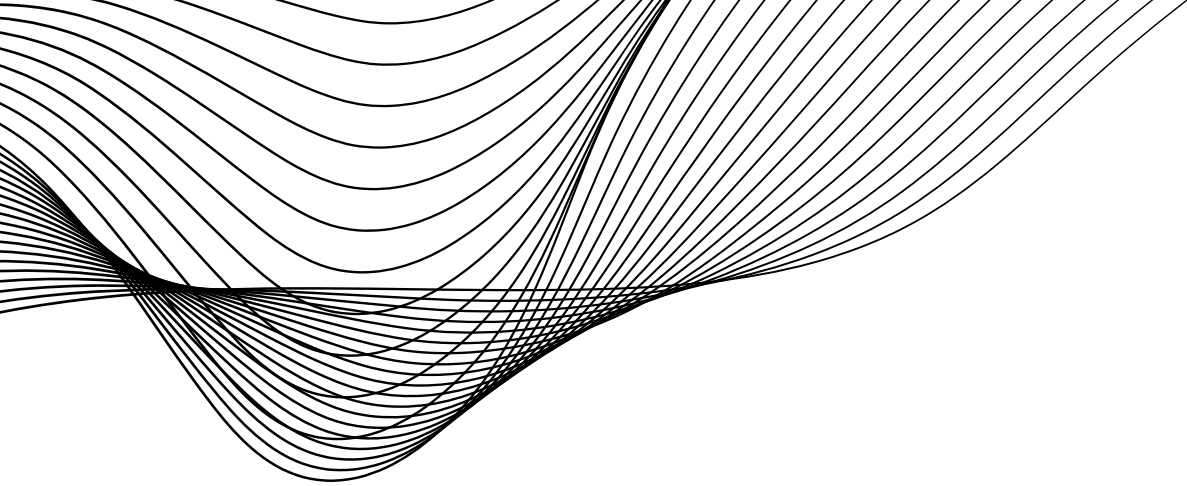
Definitions

Blockchain Miner

Blockchain miners are people or organisations who operate specially configured computers called ASIC's to mine proof of work cryptocurrencies by solving cryptographic problems. The raw materials for blockchain mining are cheap and preferably renewable power, large numbers of ASIC mining machines and local access to cooling resources such as water.







Definitions

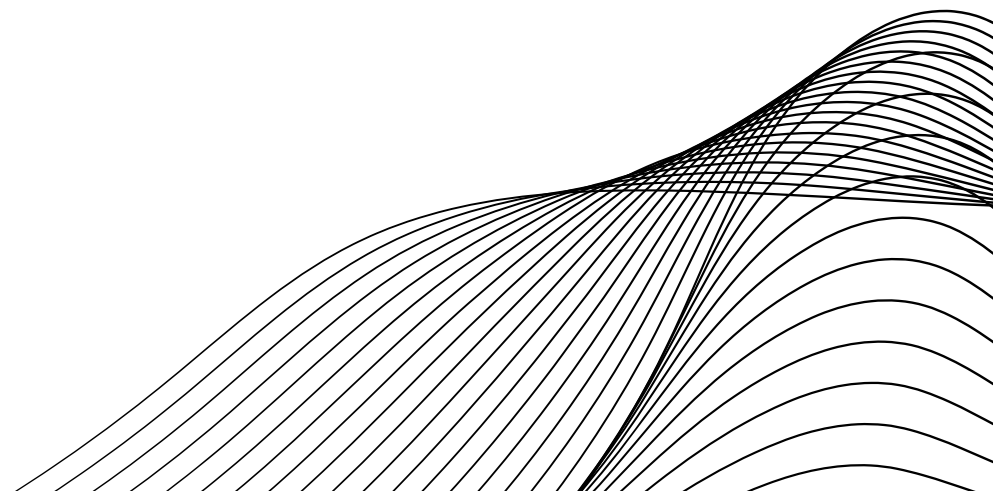
Mining Difficulty

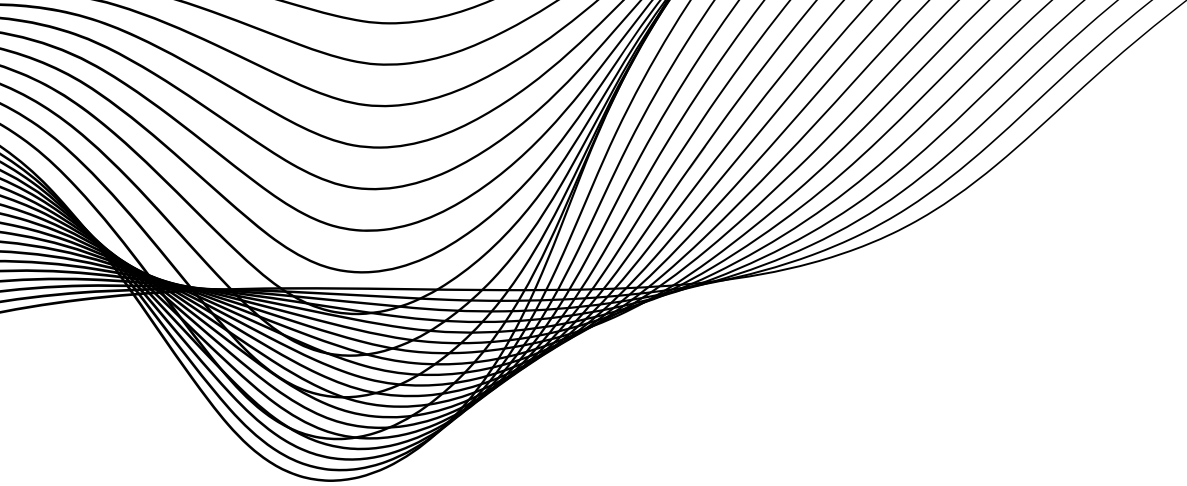
Mining difficulty is a measure of how challenging it is for miners to compete and win the next Bitcoin block reward that is awarded every 10 minutes. The founder of Bitcoin, Satoshi Nakamoto, adjusted the Bitcoin codebase so that mining difficulty becomes easier if there are too few miners on the network and harder if there are large numbers of miners.

Definitions

Hashrate

Hashrate refers to the computing power used by blockchain miners to mine cryptocurrency by solving cryptographic problems. Hashrate is influenced by the processing efficiency and absolute number of ASIC mining computers owned by a miner and also by the amount of power a miner is able to access to run their machines.





Definitions

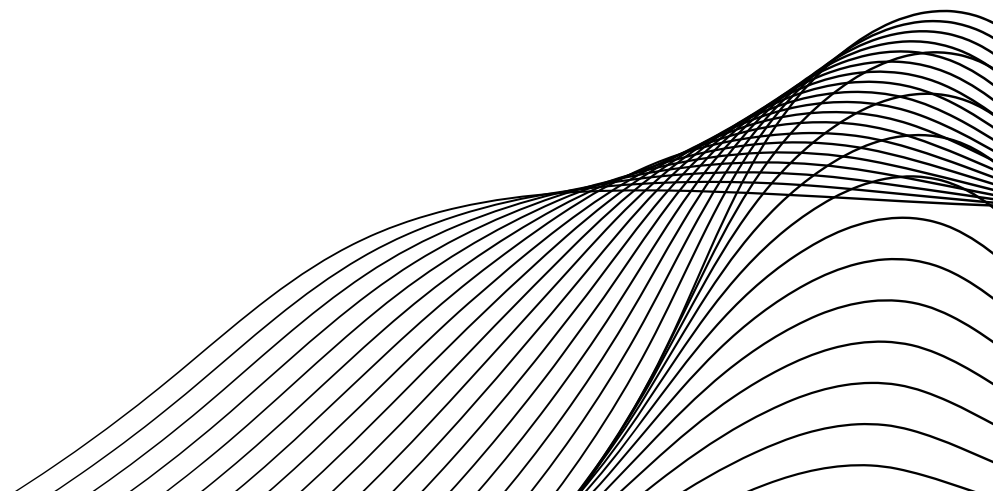
Proof of Stake

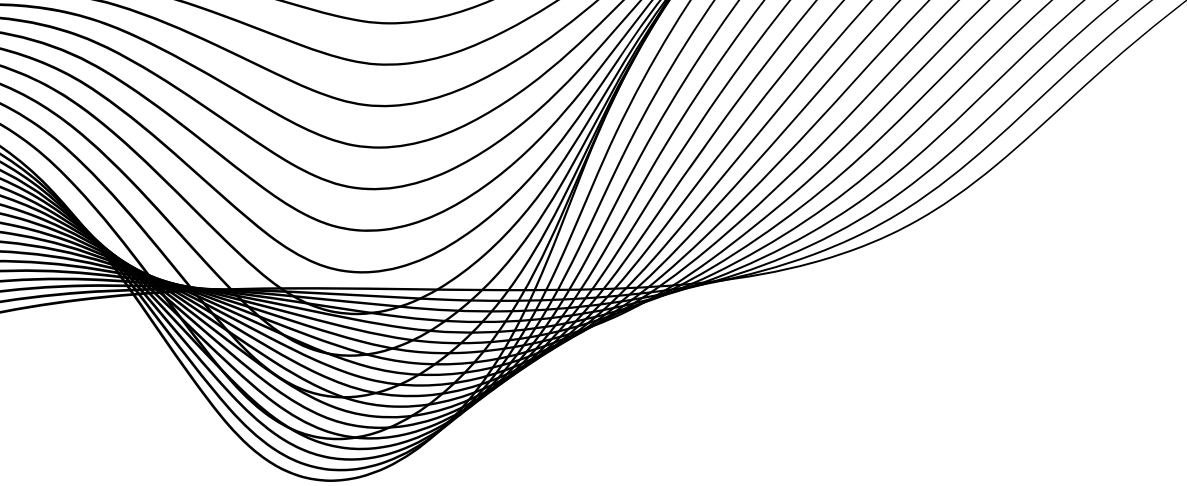
Proof of Stake blockchains like Ethereum, Solana, Flow, Avalanche, BNB chain and others use a different method to achieve consensus between the nodes of their blockchains. Instead of using proof of work, proof of stake secures the network by using individuals or organisations to act as validators who agree and achieve consensus by collectively approving new blocks. Proof of stake blockchain networks require much less energy than proof of work, but they are less secure.

Definitions

Validators

Proof of stake blockchains require validators to secure the network by approving new blocks via consensus for which they earn a block reward. Becoming a validator for a layer 1 blockchain requires the individual or organisation to purchase or acquire a significant number of the blockchain's tokens and operate a computer server that is connected online to the blockchain network on a permanent basis.





Definitions

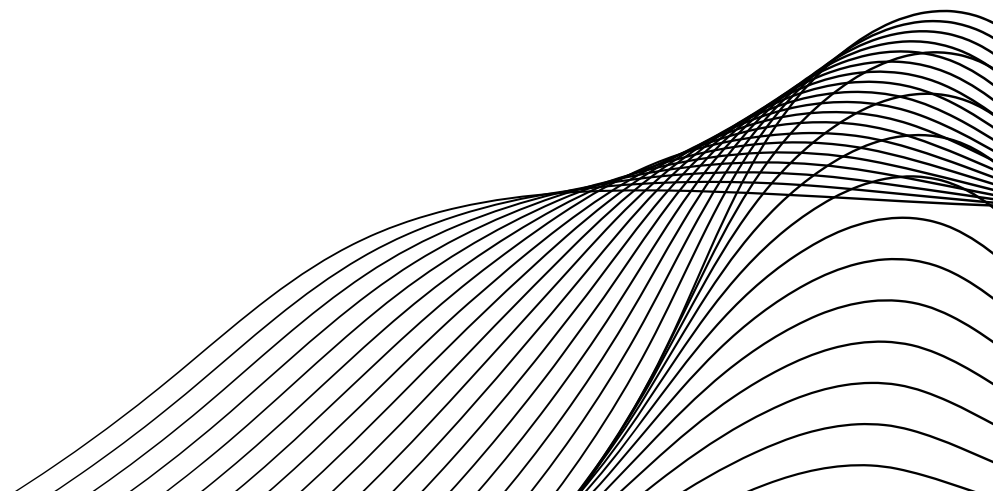
Delegators and Nominators

Delegators and nominators are individuals or organisations who have purchased or acquired a number of tokens for a layer 1 blockchain, layer 2 or other protocol and who decide to delegate their stake to an existing validator. This provides a way for individuals with smaller amounts of tokens to access a block reward APY (Annual Percentage Yield) without having to run a server that is permanently connected to the blockchain or protocol. When a delegator or nominator wishes to un-stake their tokens, including their accrued reward, their stake may be subject to an un-bonding period of up to 30 days before it becomes fully accessible.

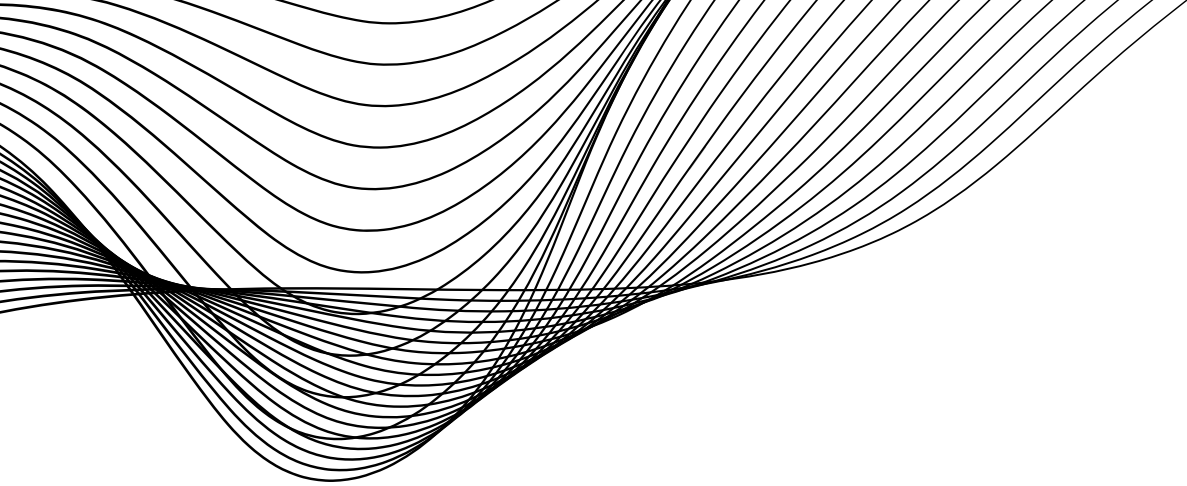
Definitions

Liquid Staking

A form of cryptocurrency staking that does not require any un-bonding period. The depositor is able to stake their crypto assets into a smart contract, receive APY rewards and when desired, withdraw their stake plus reward from the smart contract or platform without suffering any time delay or un-bonding.







Definitions

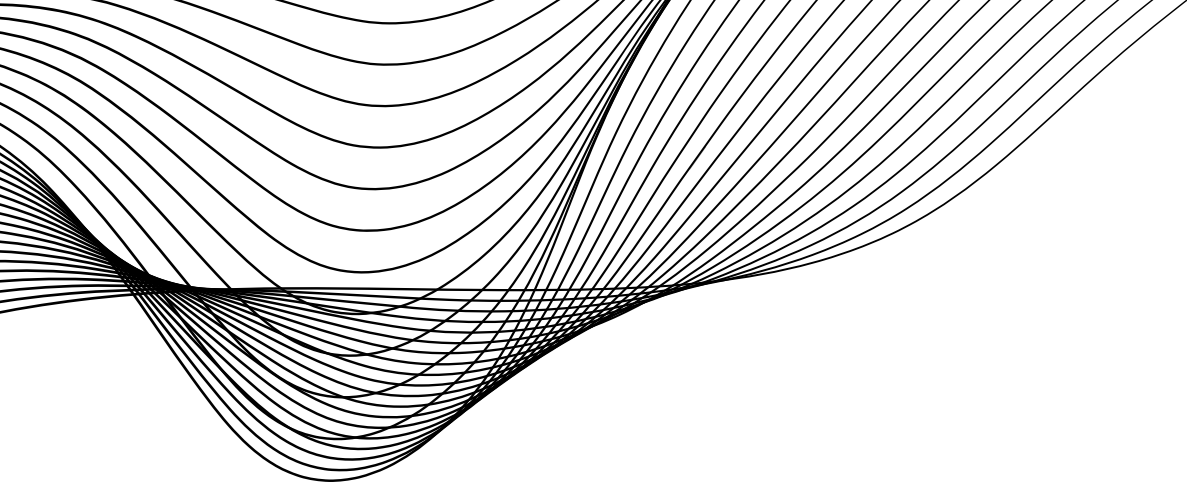
Stablecoin

Stablecoins are a private sector blockchain response to the absence of a stable, dollar-based, fiat-like cryptocurrency. Private crypto stablecoins such as USDT Tether, USDC, BUSD and others may be partially collateralised with fiat dollars, cryptocurrency or other assets and make the blockchain industry more viable by providing stability during periods of market volatility.

Definitions

Central Bank Digital Currency (CBDC)

A central bank digital currency is a blockchain-enabled, government secured and guaranteed stablecoin. CBDC's may be issued by a nation or government to assist with the regulation of its financial system and crypto-economy.



Definitions

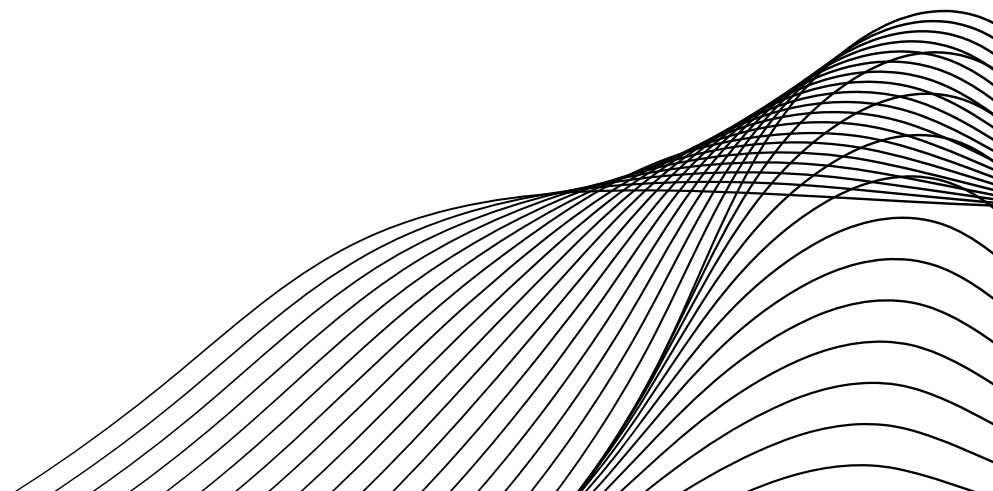
Tokenomics

Cryptocurrency token economic values that assist one to understand and compare different crypto and blockchain projects such as maximum supply, inflation, percentage staked, staking APY, token burning, release schedule, seed sale price, private sale price, public sale price, IDO price, vesting periods and founder's stake.

Definitions

Tokenomics - Maximum Supply

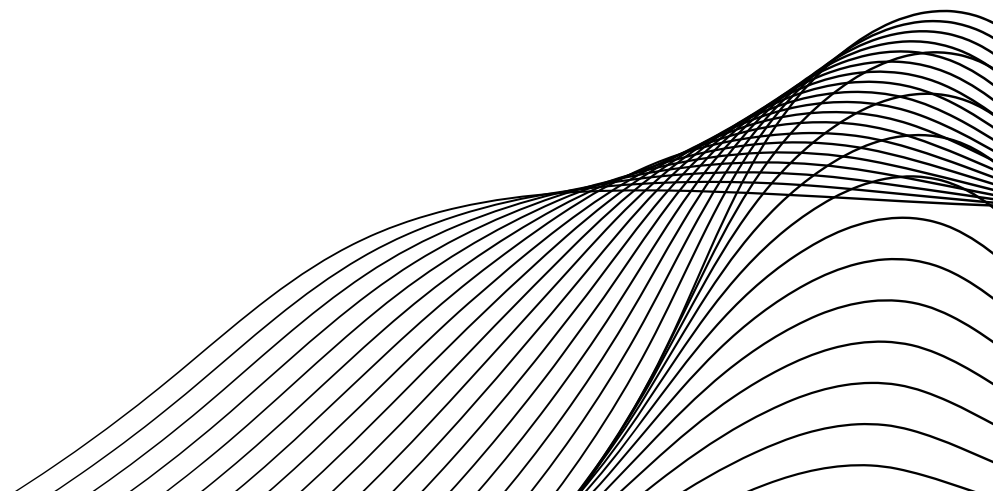
The maximum supply or total number of tokens for a cryptocurrency is summarised in the smart contract and is an important indicator of value as it influences the circulating supply and the token price.

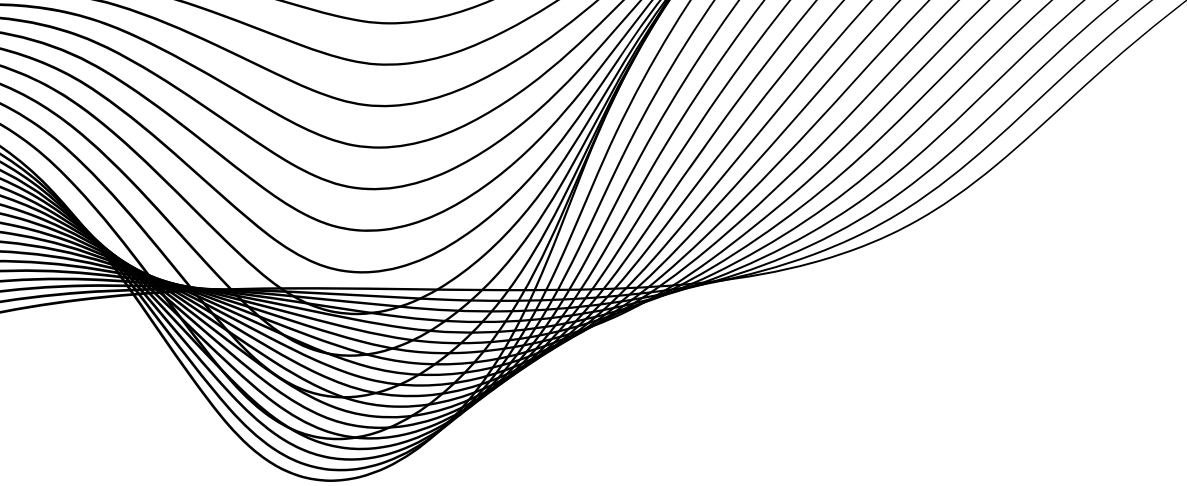


Definitions

Tokenomics - Percentage Staked

The percentage or staking ratio of a given token is important because it will influence the effective circulating supply and market capitalisation of the project.





Definitions

Tokenomics - Staking APY

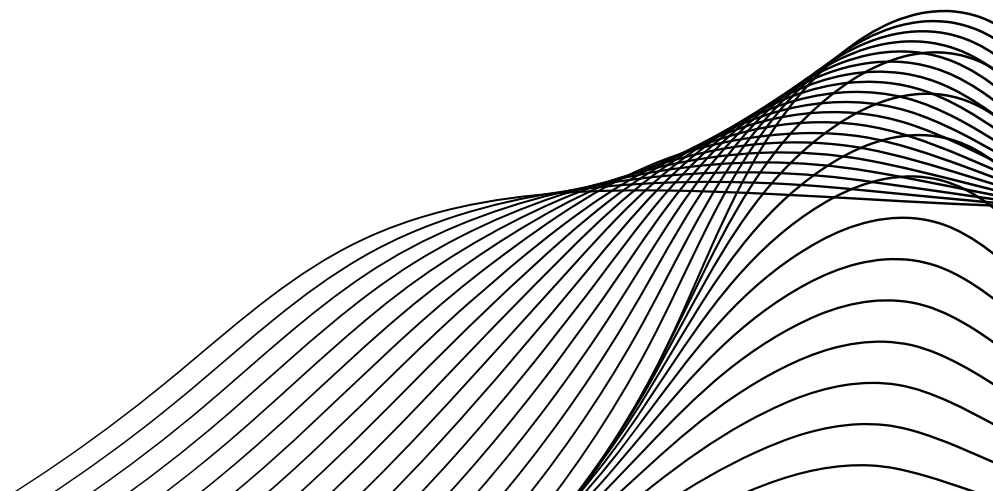
The annual percentage yield paid to individuals and organisations who stake crypto tokens in smart contracts.

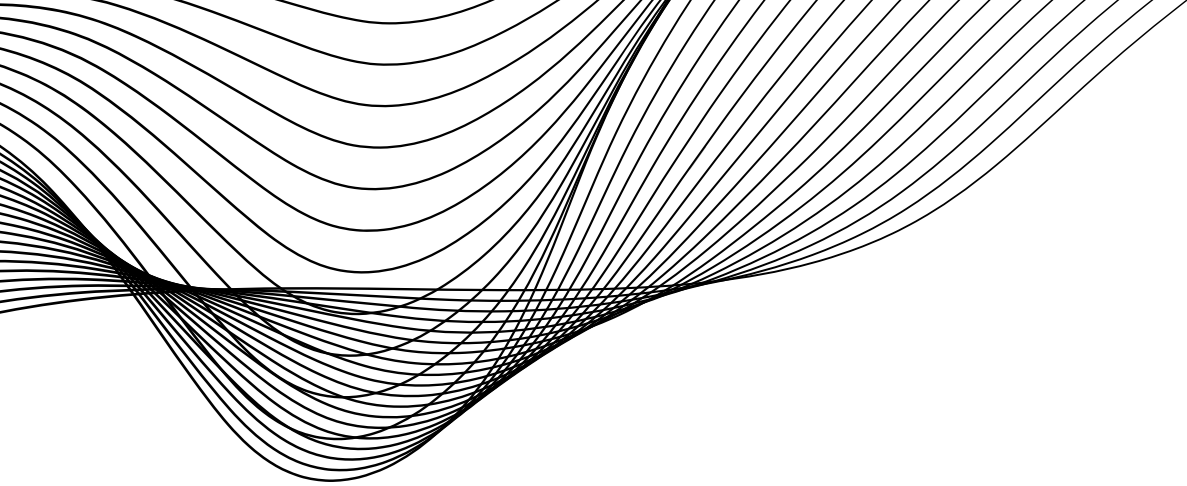


Definitions

Tokenomics - Token Burning

Many blockchain projects conduct buy-back and burning of their tokens to reduce the maximum supply of their cryptocurrency and increase deflationary pressure. However, it is worth noting that the percentage of tokens burnt in most blockchain projects is usually too small to have any impact on the token price.





Definitions

Tokenomics - Release Schedule

The schedule of token release by the smart contract into the market. Usually public sale participants will have their tokens vesting first, if not immediately, followed by private sale participants, then seed sale investors and finally the project's founders and team.



Definitions

Tokenomics - Seed Sale Price

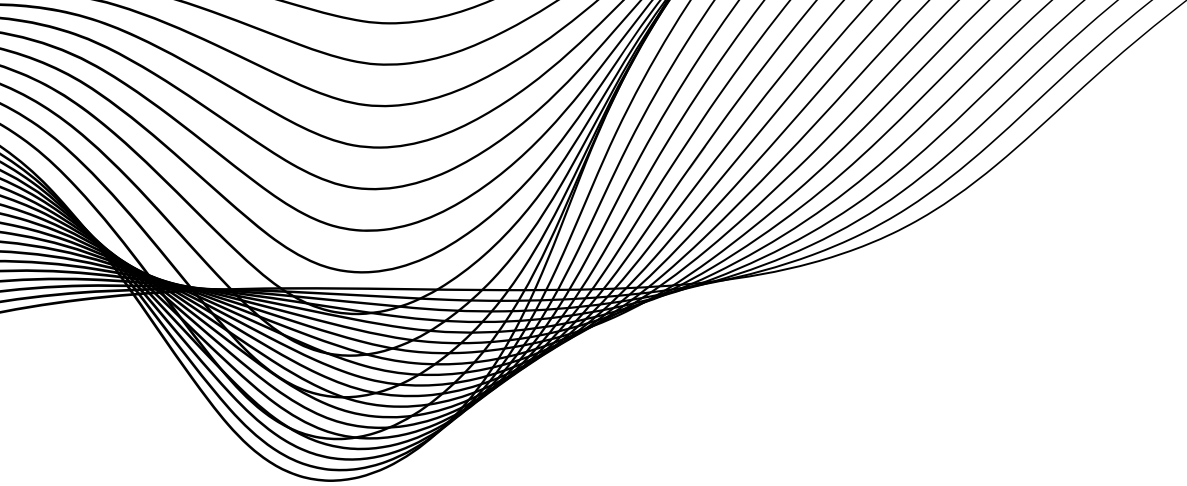
The price at which blockchain or crypto tokens are sold to seed sale investors.

Tokenomics - Private Sale Price

The price at which blockchain or crypto tokens are sold to private sale investors.

Tokenomics - Public Sale Price

The price at which blockchain or crypto tokens are sold to public sale investors.



Definitions

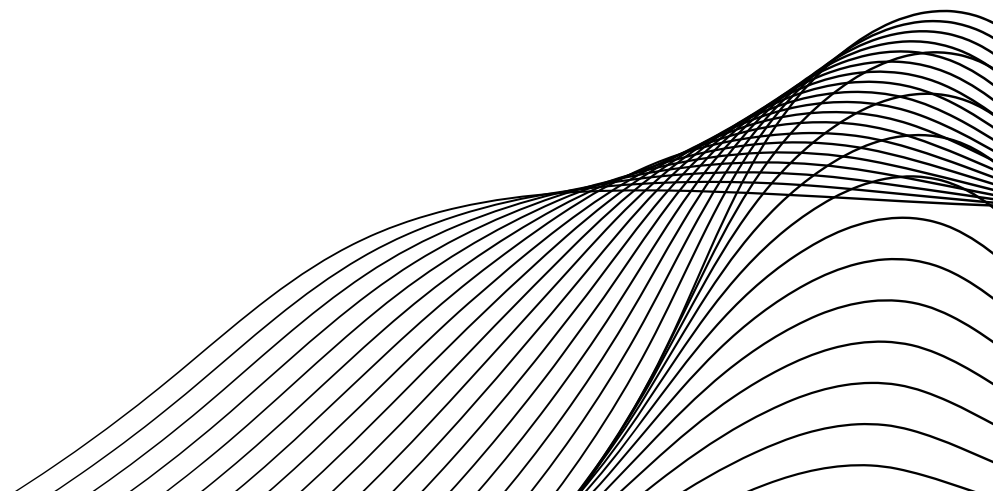
Tokenomics - IDO price

Initial Dex Offering price at which a given blockchain or crypto token is listed on a decentralised exchange or DEX.

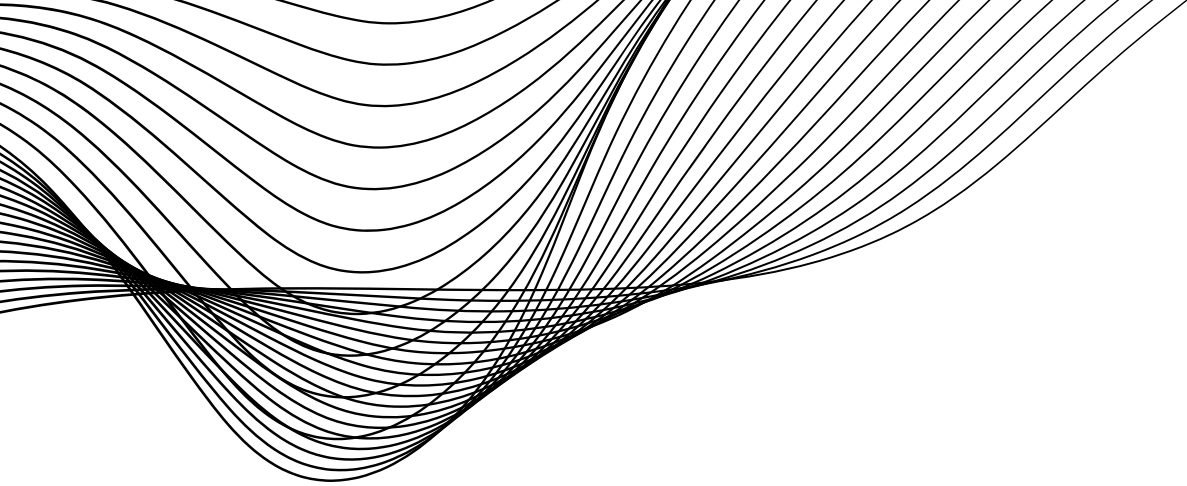
Definitions

Tokenomics - Vesting Period

The agreed time period that tokens are held in the smart contract or vault until they are issued to token purchasers, founders and team members.







Definitions

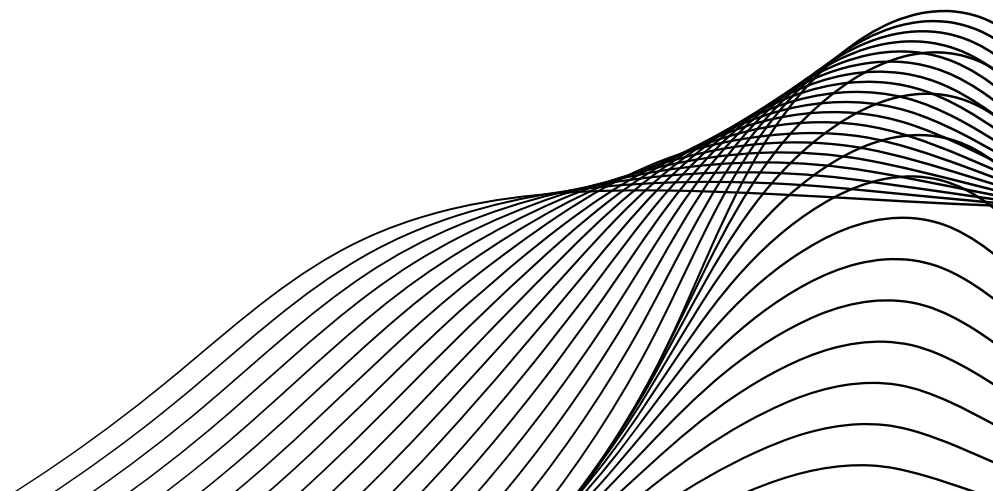
Tokenomics - Founder Stake

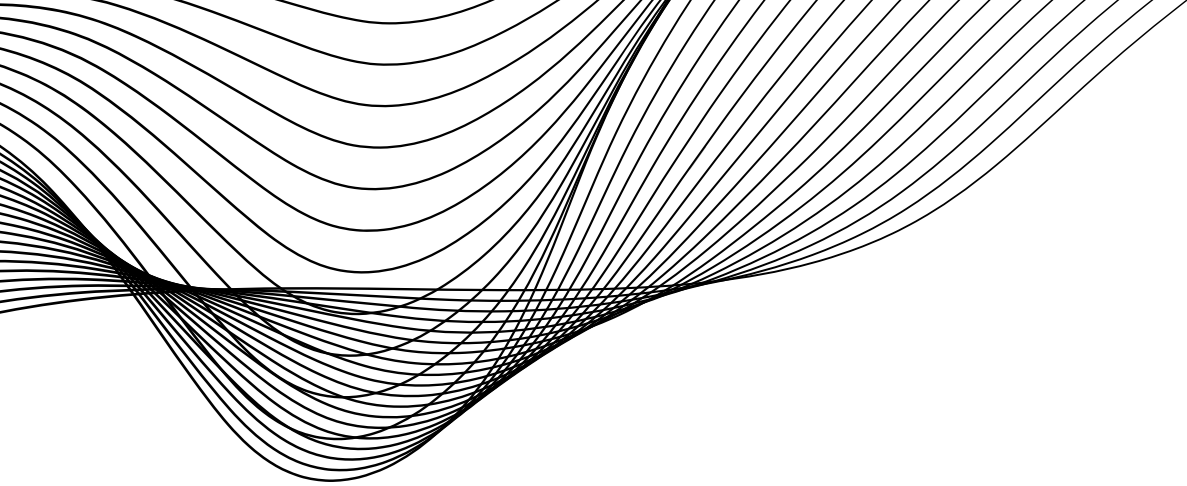
The amount of tokens retained by founders that represents all or part of their equity in a crypto or blockchain project. These tokens are usually locked up for a number of years to encourage confidence in the project team.

Definitions

Rugpull

An unfortunate event where founders withdraw all the contributed investor funds in a blockchain or crypto project. This is usually carried out by minting a very large number of new tokens using the smart contract's minting key and then dumping the tokens on the market to drain all the liquidity. Statistically speaking, rugpulls are more likely to occur in crypto or blockchain projects with anonymous teams and founders.





Definitions

Doxed Team

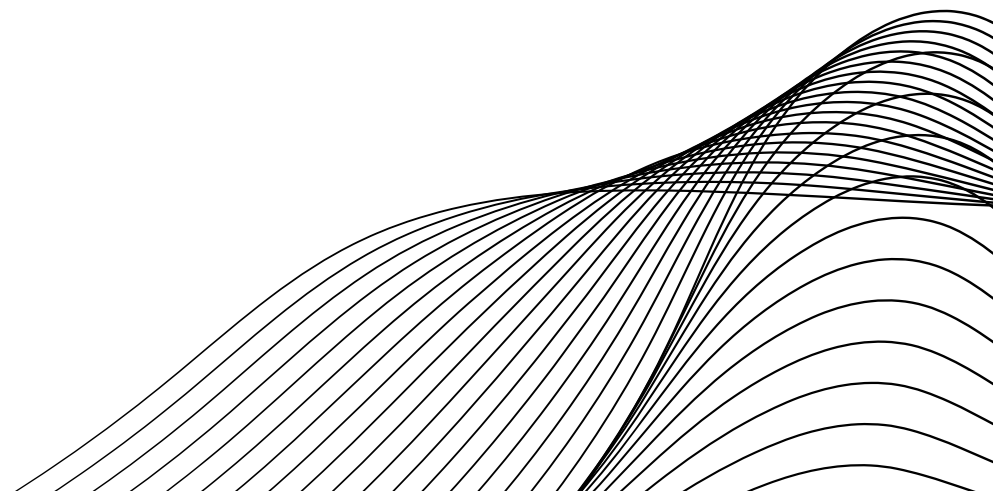
Clearly identifiable information about the faces, names, business experience and technical expertise of a blockchain or crypto project's team. This information can be provided via team photos and profiles on the project's website and also through connections to their social media accounts such as LinkedIn.

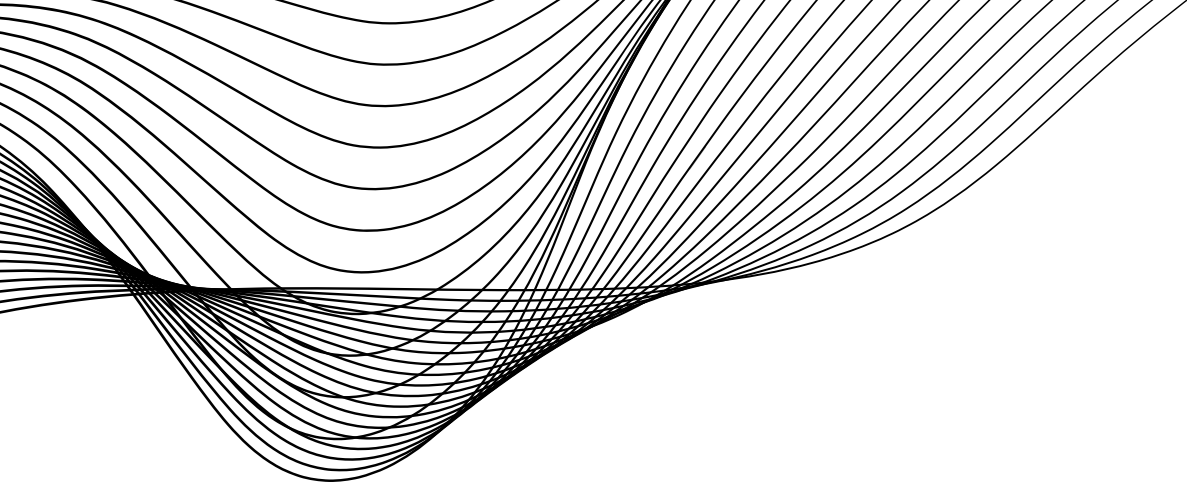
Definitions

Anon Team

An anonymous team working in a blockchain project without revealing their photo or image likeness, names, identities or contact details.

Statistically speaking, anonymous crypto projects are significantly more likely to scam or rugpull their investors.





Definition

Cross Chain

Crypto projects and protocols that allow for the transfer of crypto assets between different blockchains. These are sometimes referred to as bridges and are occasionally the targets of hackers who seek to exploit code vulnerabilities in the connection between the blockchains.

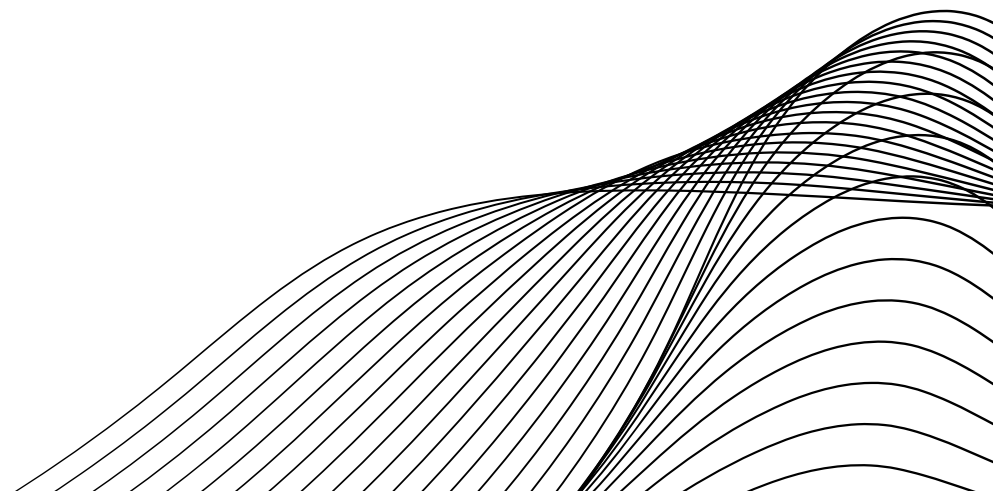
Definitions

Hacker

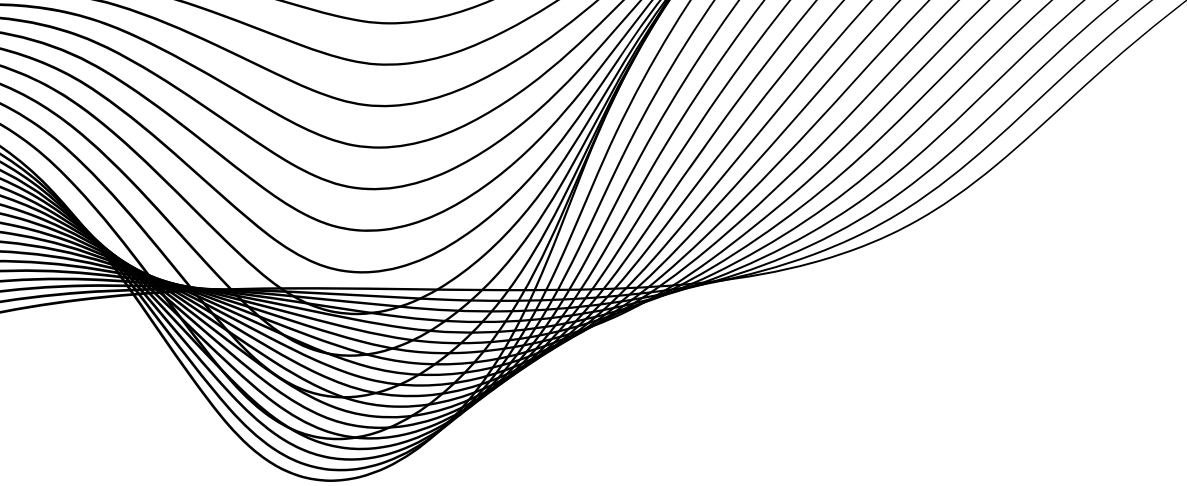
A person who uses their coding skills to steal money and digital assets from crypto and blockchain projects.

Mixer

A decentralised online platform that allows cryptocurrency thieves to conceal the transaction history of digital assets. The US government is taking active steps to regulate the use of mixers.







Definition

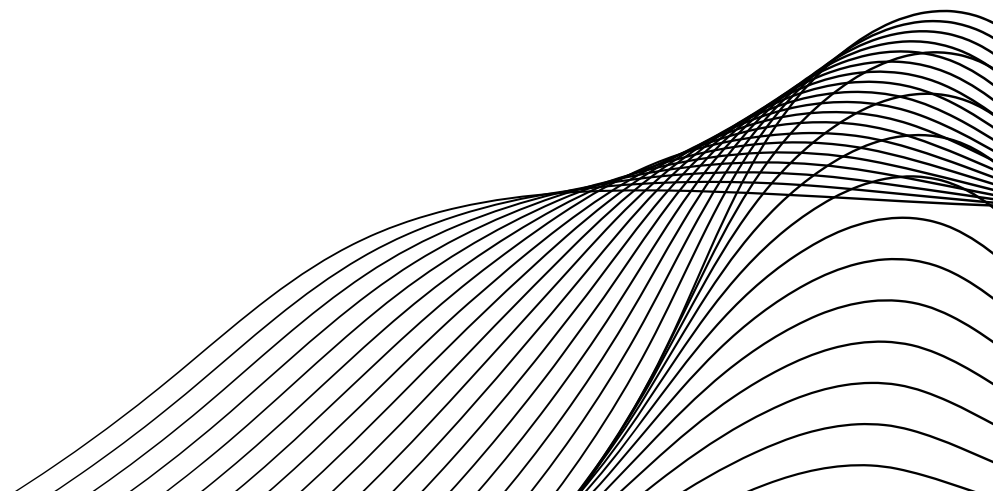
White Hat Hacker

A person who uses their coding skills to steal money and digital assets from crypto and blockchain projects, only to later return it in full, or in the majority (more than 95%). The motivation of white hat hackers is unknown, but could relate to helping crypto and blockchain projects understand where vulnerabilities exist in their codebase. If the funds are returned in full, most blockchain or crypto projects will send a significant payment to the crypto wallet address of the white hat hacker as a bounty for helping them identify and patch a vulnerability in their code.

Definitions

Audited Smart Contract

Well-organised blockchain and crypto projects audit their smart contracts before implementation to identify weaknesses or vulnerabilities in the code. Whilst carrying out an audit does not guarantee that a smart contract is protected from hackers, it is a step in the right direction. A smart contract audit is usually outsourced to firms who specialise in blockchain code audits.



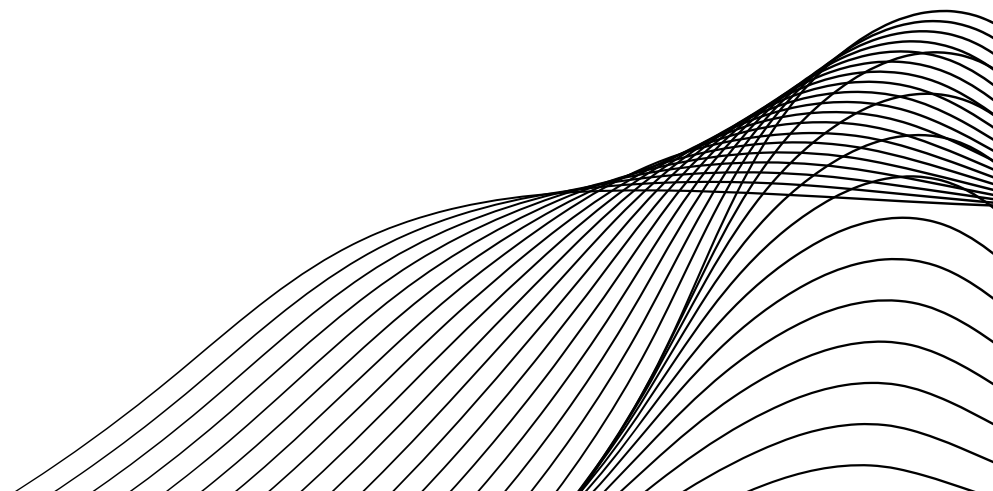
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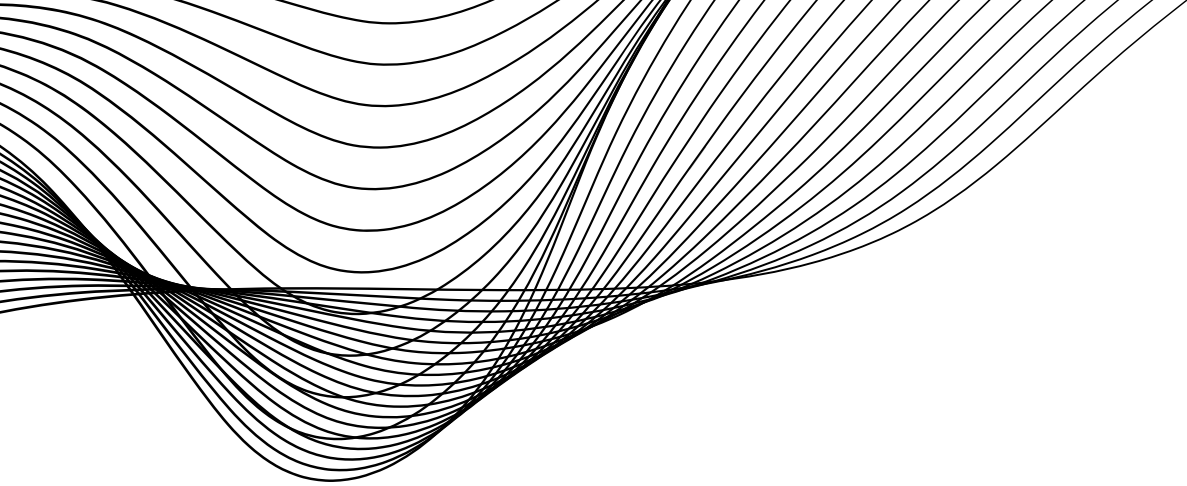
Twitter

The social media platform of choice for the crypto and blockchain industry to announce news or provide relevant information. The collective community of blockchain twitter accounts is often referred to as CT or crypto twitter.

Medium

The preferred social media platform for crypto and blockchain projects to provide in-depth coverage about their progress, achievements and future plans or roadmap.





Definition

Telegram

A social media platform embraced by the crypto and blockchain industry to provide targeted information and community-building related to their project.

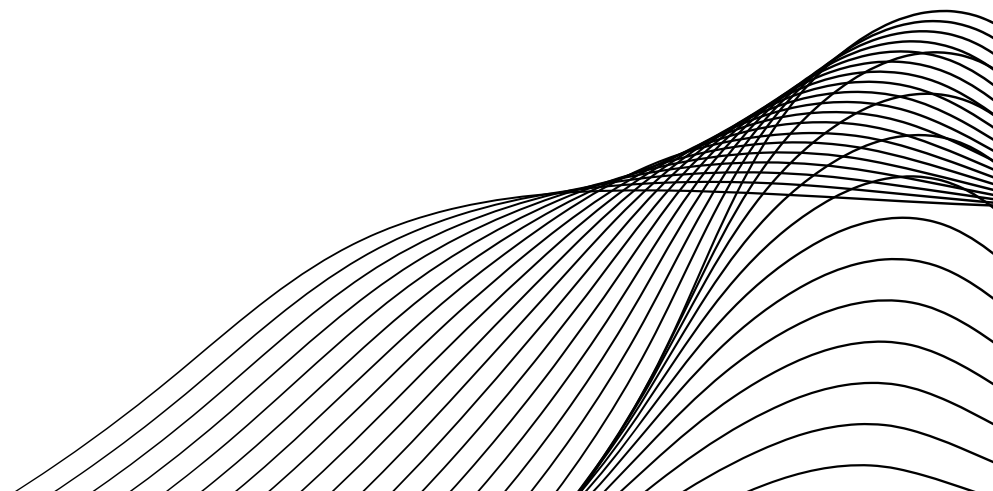
Discord

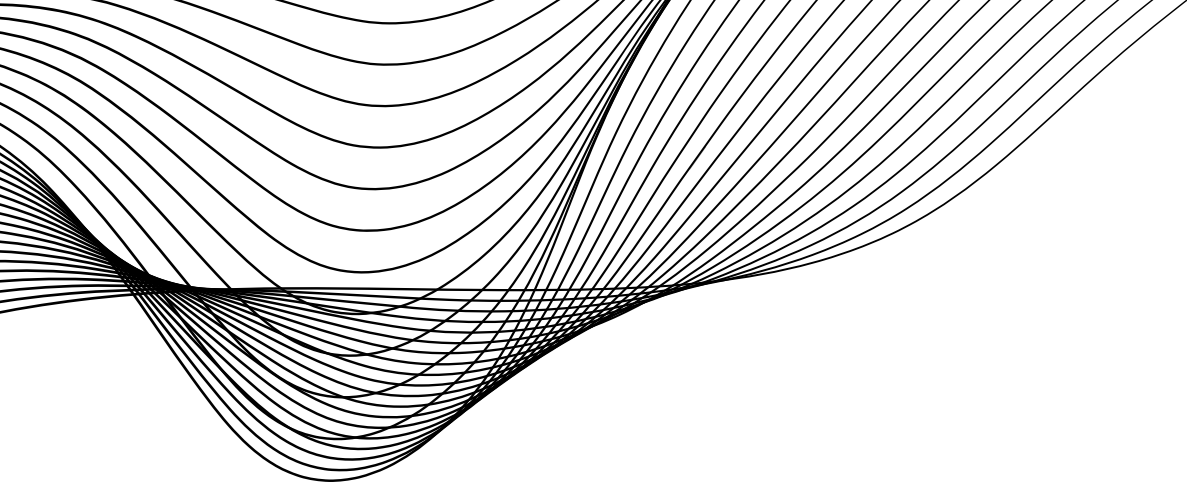
An unsecure social media platform used by crypto and blockchain projects to build communities of people who are engaged with them, especially NFT projects.

Definitions

Metaverse

A persistent online world where people gather to interact, trade, share experiences and participate in events. Blockchain-enabled metaverses allow participants to engage in the trading of crypto assets such as cryptocurrency tokens and NFTs.





Definition

Decentralised Autonomous Organisation (DAO)

A smart contract enabled organisation of online members who interact, transact, vote and undertake action using a pre-established set of rules written and codified into the DAO's smart contract.