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Exploratory study on accounting and taxation of virtual currencies by Romanian companies

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Motto: "*Accounting does not make corporate earnings or balance sheets more volatile*. *Accounting just increases the transparency of volatility in earnings.*"

Diane Garnick

Abstract

As virtual currencies became more common and utilized by various users, companies or individuals, the question about if and how to tax for them could no longer be ignored. The rise and fall of Bitcoin in the last year, the increasing number of Initial Coin Offerings and the growing number of virtual currencies being launched recently, made everyone alert to the topic. This is why, lately, more and more regulators chose to come up with clarifications about how to account (and tax) for virtual currencies. Romania, unfortunately, is not one of those countries that chose to adapt their legislation to take into account virtual coins. Ambiguity governs the use of virtual currencies, their nature and the rules to account for transactions involving virtual currencies.

In this paper, we analyze the difficulties faced by the corporate entities which use virtual currencies in their activity and so have to pay corporate tax.

Keywords: *Virtual currency, Bitcoin, accounting and reporting, taxation*

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Introduction

We start by defining the meaning of virtual currency (VC). As opposed to the old-fashion currencies, such as real currency (which has intrinsic value) and fiat currency (which is a generally accepted form of money issued by a government and circulated within an economy), VC has only a digital form. The European Banking Authority defines virtual currencies as "digital representation of value, not issued by a central bank, credit institution or e-money institution, which, in some circumstances, can be used as an alternative to money."

Cryptocurrencies, designed to replace cash, are a variety of VC which use the Blockchain technology and a decentralized ledger (which means that, as opposed to the traditional currencies, usually no supervisory authority controls the actions in the network, the issuance of new units or the exchange value).

Financial Crimes Enforcement Network (FinCEN, 2013) equally explains VC as "a medium of exchange that operates like a currency in some environments but does not have all the attributes of real currency. In particular, virtual currency does not have legal tender status in any jurisdiction."

The Romanian National Bank (BNR), in 2015, in a Notice of warning, stated that VC does not represent a national nor a foreign currency, it is not a legal tender nor electronic money and merely is an alternative way of payment. In 2018, in another notice, BNR was consistent with the first statement but specified that it classifies VC as speculative assets, highly volatile şi risky.

Presently, there is no generally accepted definition for VC. However, the lack of explicit regulation for VC doesn't imply that using it is illegal.

Even if the VCs emerged years and years ago (Satoshi Nakamoto created Bitcoin in 2009), the regulators expected to see if and how emergent the new way of paying and investing was to become, before taking the next step and getting serious about it. When VC hit the mainstream, a lot of business developed around VC. Different platforms to transfer or exchange VC was created, mining farms for VC produced, more and more companies accept VC and even use VC to pay for their purchases and some investment fund put lots of money into VC, hoping to report a considerable return rate for their investment.

Nowadays it is clear that regulators should step in and normalize the legal framework for using cryptocurrencies as there is a lack of guidance for financial reporting for VC. Due to all the uncertainty, reporting entities presented the digital currencies owned in diverse ways, such as inventory, cash equivalent, financial instruments or even intangibles, depending on their accounting policy.

1. Literature review

At the moment, we found only a few relevant articles on the specific subject of accounting for VCs. One of the reasons may be that, even if virtual currencies were in the news for the last two years, only recently they hit the mainstream. The main directions of research were the impact of Bitcoin and other cryptocurrencies on the business model, how VCs will interrupt the business, the cybersecurity risks involved for companies using VCs and the explanation behind the ups and downs in the prices of different VCs.

Kokina at all (2017) present an overview of the blockchain-related practices in large accounting firms and, as part of the process gives a very detailed illustration of the technology behind VCs. The article is particularly useful as it explains how Bitcoin works, what is the job of miners, how VCs can be stored and what are some of the most significant risks associated with using VCs.

Venter (2016) makes one of the most extensive analyses of the accounting treatment used to report Bitcoin and identifies the pros and cons of all the scenarios. He considers that it is time for IASB to also review some of the old standards as well, such as IAS 2 or IAS 38. He also reflects that the lack of regulation from IASB leads to inconsistency in accounting treatment used by different reporting entities. Venter concludes that IASB should provide clear guidance on the accounting for digital currencies and also address the more significant problem of intangible assets and commodities held for investment purposes. Practitioners also published several articles on the topic, identifying the most common accounting methods used and critically evaluating the pros and cons for them (Berchowitz (2017), Kam (2017)).

Consistent with Albu's findings (Albu at all, 2011) we noticed that Big4 were among the first companies to publish articles underlining the need for guidance about

VCs' accounting and taxation principles applicable or asking new questions without a clear answer in the absence of specific regulation. Petre (Deloitte, 2017) signalizes that in his opinion gains from using VC are taxable and due to the uncertainty surrounding cryptocurrencies entities using VC are exposed to high fiscal risks. He also raises some questions the tax authority should answer to clarify the tax treatment of VC. Milicev (EY partner, 2018) details the aspects to consider for a tax perspective before an entity to launch an ICO. In another article (2018) he also analyzes the taxation principles applicable to the gains realized by individuals from VC. Sincu (2018) presents a framework for taxing profits from VC and identifies the factors to be considered before deciding the tax applicable. He concludes that the real life is way more advanced than the fiscal legislation and there is a need for the Romanian tax authority to accelerate the process of regulating taxation of VC.

As far as we know, our study is the first research paper that focuses on accounting for VC in Romania, especially from the perspective of a company applying Romanian Accounting Standards (RAS) and not IFRS.

2. Research methodology

This paper examines the accounting principles applicable for transactions using VC in Romania, depending on the reporting framework used by the reporting entity. After we shortly enumerate the most common accounting policies used by entities plying IFRS and we critically evaluate them, we focus on the options available for companies applying RAS.

Using critical and empirical arguments, we will explore whether the reporting framework for RAS-compliant companies currently allows for the classification of virtual coins in already defined asset classes and whether there are rules on their evaluation and measurement. We will investigate the RAS choices and identify the challenges of using one or another option. Our reasoning takes into account the many ways in which entities can obtain or use VC.

We added on the table in this paper other aspects which were not covered by the previous research, such as the possible accounting treatment for entities which apply RAS and use VC and a framework that should be used by entities to determine the most appropriate accounting method. From our knowledge, this is also the first article discussing the taxation of corporate entities using VC in Romania.

Particularly in Romania, the analysis performed in this paper is useful to those with the role of regulating financial reporting under national GAAP, which have to either change the accounting regulations applicable to RAS-compliant companies or to clarify the accounting uncertainties and the taxation of virtual coins. Practitioners responsible for presenting and accounting for virtual currencies in financial statements (or auditors called to validate the fairness of the financial statement) will also benefit from the results of this study, by taking advantage of an overview of possible accounting treatments and arguments in favor of or their detriment.

3. Setting the framework for taxing VC used by corporate entities

After reading the literature, we can't help notice that most of the taxation dilemma refers to the individuals. For corporate entities, it appears that there is only little unclarity whether or not tax is due. We believe that the main reason for this discrepancy is that in case of companies, it is more likely for the question to be when to tax than if it is taxable or not.

For cryptocurrencies, both in 2015 and 2017, some representatives of the tax authority stated that as VC are not regulated in Romania, they could not talk about a framework for taxing VC, at least in case of individuals. However, since 2017, on different channels (unofficial, such as in the press), the representatives of the tax authority changed their initial position and implied that gains from VC are taxable for individuals, as well as for entities. Nevertheless, none of their views were official as until now, the Romanian tax authority didn't assume a public, official position, nor it issued any guidance about how and when to tax such gains.

The lack of reaction proved by both the tax authority and the Ministry of Finance as the regulator for accounting purposes seems hard to understand as the VC market is too large to be ignored. A lot of other countries already published guidance and amended the tax regulation or accounting principles to make sure that reporting entities and taxpayers have the framework to account for and pay taxes for the VC. As examples: IRS issued a notice from 2014 (IRS, 2014) stating that gains from VC are to be taxable as capital gains. Also as capital gains are taxed VC in UK, Canada or Australia. Belarus recently passed new accounting regulation which states that tokens acquired during ICOs, depending on the entity's intention to keep them, may be classified as long-term or short-term investment. In 2017 the Accounting Standards Board of Japan published an exposure draft in which proposed that VCs held by an entity on its own behalf to be measured using the market price at the balance sheet date, with any differences between the carrying amount and the fair value recognized as a gain or loss, as long as an active market exists for the virtual currency. FASB started to research developing an accounting standard for digital currency since 2017. Meanwhile, IASB is analyzing, as well, the need as well for a new accounting standard.

Romania, in particular, has a flat tax rate and it does not distinguish between corporate income tax and capital gain tax. In other words, regardless of the revenues or gains have been reported after selling a business asset or from the operational activity, the income tax (profit tax) is the same. The corporate income taxable base is the difference between the revenues and gains and the expenses and losses, all reported for accounting purposes. The accounting profit or loss is adjusted for some non-taxable or non-deductible items.

It follows that once a company reported a gain or revenue, these items are taxable unless specific provisions about their non-deductibility are mentioned in the Fiscal Code. Similar rules apply for expenses or benefits. For the rest of this paper, we use either revenues or gains or expenses or losses with the same meaning for tax purposes.

As companies are required to publish financial statements and to comply with the Generally Accepted Accounting Principles, they have to report the gains or losses resulted from using virtual currencies and have to tax such gains, as there are no exceptions stated in the Fiscal Code.

In Romania, the corporate tax relies heavily on the accounting evidence, so, to decide when to tax the gains or deduct the losses from using virtual currencies, we must return to the basic and determine, from an accounting perspective, how to account for virtual currencies.

Browsing the literature, we find, as stated above, that both researchers and practitioners are arguing about the proper way to record transactions in which virtual currencies are used. From all the different arguments, one may conclude readily that there are, for the moment, no specific requirements or rules regarding accounting for virtual currencies and that many international regulators or regulators from different countries are in the process of amending or even just modified their GAAP to introduce such rules.

To decide the proper accounting method, a reporting entity must consider all the following questions:

1. The accounting framework applicable?
2. How was the VA obtained?
3. What was the main reason for holding the VC and how is it used?
4. Does the VC have a fair value that can be determined?

1. The accounting framework applicable

In Romania, different types of companies apply different reporting framework. Domestic companies whose securities trade in a regulated market, financial and non-financial institutions regulated by the Romanian National Bank and some state-owned companies are the entities required to apply IFRS, as adopted by the European Union, for their financial statements. Most of the reporting entities, private companies, use the Romanian Accounting Standards (RAS), which are aligned with the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. There are other types of entities which are required to apply different reporting frameworks (such as state-owned companies, public institutions or not for profit organizations). However, they are not within the scope of this paper. Our paper focuses mainly on companies using IFRS or RAS.

2. How was the VC obtained?

An entity may obtain VC as a result of buying it, receiving it in exchange of goods and services sold or delivered in the ordinary course of the business or as a result of mining for it. It is not impossible, even if it is unlikely, for the entity to obtain for free such VC, when, as examples, receives them as a donation, by mistake or from other sources.

When VC is being bought, the entity may pay by using a traditional currency, by exchanging them against another VC or even as a result of an ICO.

In case of Bitcoin, as an example, for a transaction to be added to the public ledger, someone -a miner – has to validate it. The software solves an intricate math algorithm and the first miner who resolves it receives a transaction fee which consists in newly released bitcoins.

It is also possible to obtain VCs as a result of an Initial Coin Offerings (ICO). ICO is a form of crowdfunding using cryptocurrencies. When an ICO occurs, a percentage of a newly created cryptocurrency will be sold to investors for legal tender, or other cryptocurrencies, such as bitcoin or others. Usually, in case of ICOs, a company will create a new digital currency, while the other one will acquire it.

3. What was the main reason for holding the VC and how is it used?

Some entities realized it is highly profitable to mine for VC. As such, their primary activity is to mine for VC and, after the VC is being received, they are being exchanged for traditional currencies, more or less rapidly. Other companies are just accepting VC as a payment instrument to attract more clients. Such companies use the VC obtained to make the current payments, may those be for goods and services or even salaries. Other companies may decide to hold VC as an investment instrument, betting that the price of that particular VC will increase and lead to a return rate higher than for traditional investment. The holding period may vary from short periods of time to longer ones. Other companies may speculate on a short period the price variation for different VC. The answer to this question may be important from an accounting perspective: depending on the nature of such VC, the classification may vary in the statement if the financial position from an item of inventory to an intangible, as an example. Moreover, depending on the nature of the asset, the measurement and recognition of the gain are different.

4. Does the VC have a fair value that can be determined?

Most of the public hearing about VC things immediately to Bitcoin, the most famous VC at the moment. However, there are plenty of other VC which are not so famous and are not so easy to have their fair value determined as in case of Bitcoin. This is important as in an exchange transaction such fair values may be very subjective, or very difficult or even impossible to determine. As a consequence, the gain or loss from such operations will be either difficult to decide on or very subjective. In such cases the risks to which the taxpayer is exposed is high.

4. Romanian companies applying IFRS

From an accounting perspective, practitioners and researchers agreed that there is lack of regulation in IFRS and there is an increasing need for specific rules applicable for transactions with VC. However, the majority of the scholars and experts seemed to approve, lately, that VC should be classified as inventory or intangibles, depending on the way the entity acquires them and the intended use.

The first question relevant to the accounting treatment refers to the nature of VC. Although many considered over the time that VC is, in substance, similar to traditional currency, recently it is widely accepted that it is instead a commodity.

Venter (2016) concluded that the reporting entities classified VCs in one of the following categories:

1. Cash or cash equivalents (in the scope of IAS 7)
2. Financial Instruments (in the scope of IFRS 9).
3. Inventory (in the scope of IAS 2).
4. Intangibles (in the scope of IAS 38).

Even though it is commonly used as an alternative to the traditional currency, VC, at least for the moment, does not comply with the accepted meaning of a fiat currency. Also, as it is highly volatile, VCs seem not to fir the definition of the cash equivalent. The same conclusion was also drawn by other researchers (Venter (2016), Kam(2017)). However, EBA considers that there may only be a matter of time until some VC, more stable and more widely accepted, will be regarded as money. A PWC report (2015) supports this vision, as well.

Conversely, financial instruments, as defined by IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments, imply a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. It follows that most of VC mined or acquired otherwise by the entity, fail to fit the definition of a financial instrument. Still, we mentioned that more often entities launch ICOs and, as a result, new VC (tokens or coins) are being offered to the public. Depending on the specific contractual agreements and features of such VCs, the definition of financial instruments may be met in such cases. The Security Exchange Commission released guidance on when to consider an ICO similar to an IPO (when it come about the obligations of the issuer) and the risks involved.

For entities complying with the definition of broker-traders (those who buy or sell commodities for others or on their own account, with the main purpose of selling rather sooner than later and generating a profit from fluctuations in price or margin) IAS 2 prescribes a special measurement rule. More precisely, such inventories bought by broker-traders are to be measured in the financial statements at fair value less costs to sell and changes in fair value less costs to sell are to be presented in profit or loss statement in the period of the change.

IAS 2 seems the most appropriate standard for the companies investing in VC and transforming them into cash. However, there may be a problem as IAS 2 mentions a short holding period. There are entities which keep the VCs for years before deciding that the time is right for the sale. Could such entities still classify VCs as inventory, under such circumstances? Would the general rules prescribed by IAS 2 be applicable for such assets? The general rule states that stocks should be presented in the statement of financial position at the lowest value between the carrying value and the net realizable value. Gains reported above the carrying value of the VCs can't be recognized in the profit and loss. Using historical costs for reporting the VC is considered not to lead to relevant information for the users of the financial statements.

IAS 38 Intangibles defines intangible assets as identifiable non-monetary assets without physical substance. However, intangible assets which are held by the entity for sale in the ordinary course of business are in the scope of IAS 2 Inventory.

If we accept that VCs are non-monetary assets, it seems that VCs could be classified as intangibles in the scope of IAS 38, but there are some interesting issues raising.

After recognition, the reporting entity may choose between the cost model or the revaluation model as its accounting policy. If the revaluation model is selected, IAS 38 requires the intangible to be carried at a revalued amount, which is its fair value at the date of the revaluation less any subsequent accumulated impairment losses. If the carrying value of the intangible asset is increased after a revaluation, the difference should be recognized in other comprehensive income, under the heading of revaluation surplus. Some researchers question if such an accounting treatment for assets that are usually highly speculative leads to the most relevant information for the users of the financial statements and answer they come to is that it does not (Venter (2016), Kam(2017)).

VC would qualify as intangibles with indefinite useful lives under IAS 38, and no amortization would be computed as the useful life can't be estimated.

If the entity receives VC in exchange for other VC or for the goods and services it offers in the ordinary course of its business, it is part of a bargain. Basically, the entity has to estimate the fair value of the VC received. A similar issue appears when VC is considered part of the inventory.

As most of VC are not centralized nor regulated, there is not a single market to be used as a reference for the fair value of VC. Bitcoin is liquid and usually can be converted easily to cash or a traditional currency, but a lot of other VC is not traded so the fair value can't be determined. If VC's are received as a result of mining, an important question refers to whether IFRS 15 applies or not, considering that usually there is no contract or other agreement between the entity and another party regarding the price of the mining services supplied or other contractual obligations.

On the other hand, if the entity considers that the existing IFRS are not applicable to VCs, then, according to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the reporting entity has to create its brand-new accounting policy for the VCs it uses. In line we previous research (Venter, 2016) we believe that companies buying VC for investment over a longer period are forced to create their own accounting policy. We also believe that the most relevant accounting method would be to fair value the VC in the statement of financial position and to present the gains and losses in the profit and loss statement.

Although there are arguments in favor of all the above categories of assets, we consider that VC is a new type of assets and that IASB should issue a new standard.

Romanian companies using IFRS as the basis for their financial statements should also compute their corporate income tax based on the profit reported for accounting purposes. Special rules are prescribed by the fiscal code for such taxpayer, as opposed to the rules applicable for entities using RAS. Although recently the fiscal code was amended for IFRS Romanian adopters' specific needs, as opposed to a couple of years ago (Paunescu, 2015), there is no reference to the rules applicable for VC. It follows that the tax payable is determined when the gain or reported for accounting purposes.

5. Romanian companies applying RAS

Romanian Accounting Standards (RAS), as said, are aligned with the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. At first glance, RAS are inspired by IFRS, as they already incorporated a certain number of options specific to the IFRS (Istrate, 2015). What seems to be confusing, nevertheless, is that RAS does not contain any references to IFRS as a source of interpretation of the national prescriptions and that preparers are not allowed to use as an inspiring source (Albu&Albu, 2017). This is in spite of the fact that usually, the regulator considers IFRS when searching for solutions to various problems.

In Romania, the National Bank issued a warning in 2015, declaring that VC is not a fiat currency, not a foreign currency and also not electronic money, as defined by Law 127/2011. VC is also not a financial instrument, as determined by Law 24/2017. Based on the Romanian legislation, VC is just movable goods.

There is no explicit rule about accounting for VC in the RAS. Accepting that VC is not financial instruments nor cash or cash equivalent, the reporting entity has to find another class of assets that are suitable for inclusion of VC. As opposed to IFRS, RAS offers only limited choices, and the degree of freedom is restricted. Some examples come handy: all the items should fit not only the chart of accounts presented in the Order issued by the Ministry of Finance but also the standardized reporting forms (financial statements) all such entities have to submit at the end of the year.

We believe that VC would fit the definition of inventory, as stated by the RAS as there is no indication in the definition about the nature of the asset. However, VC could be classified as inventory as long as the entity intends to use it or sell it in less than 12 months or during the ordinary business course or even if the main reason for holding such assets is to trade it.

RAS is different than IAS 2 as there is no exception applicable for broker-traders, as we presented it above. It follows that if an entity classifies its VC as inventory, there will be no gains recognized until the asset is sold. RAS requires the reporting entity to present the stock in the financial statements at the lower value between the carrying value and the net realizable value. No gains can be reported above the acquisition cost until the inventory is sold.

This accounting treatment, although not very useful for users of financial statements, may benefit the entity from a tax perspective as there is no taxable gain in the absence of a gain recognized for accounting purposes. If the entity intends to mark its gains or losses, then it can sell and buy-back the VC owned (or part of the VC held) as long as it is willing to suffer the transaction costs which usually are said to be less than banking fees. For not so liquid VC, marking them to the market may be more difficult.

If VC is classified as inventory, then when they are being derecognized, the company should either use the specific identification method or another method prescribed by the RAS, such as FIFO, LIFO, CMP. As each VC can be identified specifically, by its own address, we believe that it is possible to keep track of all of them, individually, unless the entity considers another method more appropriate.

Another sort of current assets is the short-term investment. Mostly financial instruments, as defined by Law 24/2017, are classified here. We consider that VC doesn't fit the definition of short-term investments, nor the definition of long-term financial assets.

One class of assets, part of the cash and cash equivalents, should be analyzed as well. The name of the group is Other instruments (Rom. "Alte valori"), and it includes assets such as travel tickets, lunch vouchers, stamps and others. If we accept that VC could be classified as such assets than RAS requires for them to be presented in the financial statements at the nominal value, adjusted for the needed impairment. In the absence of the nominal value, we believe that de cost should be used. Gains from the price fluctuations may not be recognized until such instruments are being derecognized. As VC are usually denominated in foreign currency, we analyzed if it is possible, based on the RAS, to evaluate such assets based on the exchange rate published at the end of the year. We believe that VC does not classify as monetary assets, as defined by RAS, so it is not possible to recognize any gains or losses from the exchange rate variation until they are being derecognized.

VC fit the definition stated by RAS for intangibles, as they are non-monetary assets without a physical substance. So companies which have VC and do not classify them as inventory (as they don't intend to use them or sell them during the ordinary course of business) could classify them as intangibles.

In such a scenario, some particular aspects should be considered. As opposed to the requirements of IAS 38, RAS only allows intangibles to be measured in the financial statements at their initial cost minus accumulated amortization and impairment. So, a Romanian entity will have no option to use the fair value nor to recognize the gains from the fair value variation, until the VC is being derecognized. Another difference between the RO-GAAP and IFRS is that intangibles with indefinite useful lives are not recognized according to RAS. All the intangibles other than prepayments classified as intangibles should be amortized, according to RAS. We don't argue that the entity can't classify VC as intangibles as they don't have a determinable useful life; we only underline that the RAS is not adapted to the needs of entities using VC.

As for inventory, if the entity intends to mark its gains or losses, then it can sell and buy-back the most liquid VC owned as long as it is willing to suffer the transaction costs.

We can't help to notice that in RAS it is stated that the financial statements should present a true and fair view however they should be prepared by the requirements of RAS. Romanian entities non-IFRS adopters may depart from the provisions of RAS when they believe that such a demand doesn't lead to the desired fair view. However, in real life, we never saw such a case, and it is difficult to use such a possibility as long as there is little flexibility in using the charter of accounts and the templates published for the financial statements.

Other challenges faced when accounting for VC are that, if we accept that VC are commodities and not money when they are acquired against goods or services or even against other VC, the entity engages in a barter transaction as defined by the Romanian Civil Code. RAS requires for barter transactions to be recognized separately, as two distinct operations, with all the revenues and expenses reported for both of them, based on the supporting accounting documents. A similar requirement, to account the operations separately, could be found in the Fiscal Code. In such transactions, the entity has to use the fair value to recognize the goods and services received and the revenue/gain to be reported. It is important for entities to understand that even if the VC is not exchanged for "real" money, as long as an exchange took place, a taxable event was generated and it is likely for taxes to be due.

When the company uses VC as a means of payment, all the tax applicable usually for that transaction are payable. As an example, when salaries are paid in VC, the company has to account for the expense and compute both the salary tax and social security contributions applicable. When a company sells goods and accepts Bitcoin as payment, for the delivery, it has to apply VAT (if it is usually suitable) and complies with all the other requirements applicable commonly.

For mining transactions, which are closer to the delivery of services (the miner validates some blocks), the entity should recognize the initial cost of such assets based on their fair value, and not on the costs expensed to deliver the service. The VAT treatment should be investigated for such transactions, as, basically, the miner provides a service from the IT area and receives payment. We see no reason for the VAT not to be applicable. However, it will be difficult to identify the client in such a case, to decide where VAT is appropriate (if we consider the Romanian miners, taxable persons).

As the Romanian literature is mostly consistent in acknowledging that most of the Romanian reporting entities applying RAS would instead choose an accounting treatment which might not lead to the most useful information for users but is safer from a fiscal point of view (Cuzdriorean et al. 2012, Istrate 2011, 2012, Paunescu, 2015), we believe that entities holding VC will be satisfied with using the historical costs in the financial statements and postposing the taxation of gains until the VC is being exchanged for other assets or services.

In line with previous research (Paunescu, 2015), which concluded that the most common matters on which taxpayers and the tax authority disagree regarding the taxation of income related to income measurement and moment of recognition, we believe that as long as there are no clear rules about when and how to report the gains from VC, the reporting entity is exposed to a high fiscal risk.

Conclusion

In our paper, we analyzed the accounting policies available for Romanian reporting entities using VC, depending on the accounting framework applicable and their intended use. We examined the options available for IFRS adopters and in comparison, those existing for entities applying RAS. Even if most of the reporting entities using IFRS classify VC as inventory, financial instruments, cash or intangibles, according to the appropriate IFRS applicable, it is evident that the requirements of the existing IFRS are not properly fit for the new assets, recently launched. Moreover, if the reporting entity intends to use the VC as an investment asset, neither of the above classes can be used. A solution would be to use a customized accounting method to account for the VC. However, the diversity of the accounting methods used, when it is more and more common to find VC in the financial statements, will not benefit the users. As a result, many researchers believe that it's time for IASB to step in and either issue a new standard or adapt the existing one for the reporting entities to account for VC.

Using critical and empirical arguments, we investigated the choices offered by the RAS and identified the blurriness that may arise when using one or another option. We have also critically reviewed the impact of the existing options on income tax payments, concluding that it is likely that companies applying RAS will choose accounting treatment that is prudent from a fiscal perspective even if it does not generate useful information from the financial statements.

In Romania, the degree of freedom in using professional judgment is lower for reporting entities not using IFRS. Even if such an entity would classify the VC as inventory or intangibles, as long as RAS is different from IFRS, only the historical cost is available to be used as a measurement base in the financial statements. The entity has no choice of using the fair value as RAS don't have an exception similar to the one from IAS 2, referring to the broker-trader. Also, RAS doesn't allow entities to classify an intangible as one with an indefinite useful life, as opposed to IAS 38. RAS requires all the intangibles in the class to be amortized over their useful life. Meanwhile, VC does not have such a useful life.

As both RAS and the fiscal legislation requires exchanges to be reported as two separate transactions, companies exchanging VC against goods, services or other VC have to use the fair value for recognizing the cost of the assets or services received, and report in full the gains and losses suffered.

The lack of relevant and useful information for users, in case of the entities applying the existing accounting policies prescribed by RAS, may be in the advantage (from a tax perspective) of the reporting entities which usually prefer to comply with a tax proof accounting method than with one leading to high-quality information. However, we believe that as long as there are no clear rules about when and how to report the gains from VC, the reporting entity is exposed to a high fiscal risk.

Our analysis shows that, as with other national and international regulatory bodies, the Romanian regulatory body must come either with a change or with clarifications about how entities that apply RAS and have virtual currency must classify, measure and present them in the financial statements.

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