

## Five Things to Know about New Jersey's Taxation of Convertible Virtual Currency

By Richard E. Nielsen, Michael J. Cataldo, and Paul T. Casas

*On March 10, 2015, the New Jersey Division of Taxation issued [Technical Advisory Memorandum TAM-2015-1](#), explaining its policy regarding convertible virtual currency.<sup>1</sup>*

1. **The IRS has held that convertible virtual currency (CVC), such as Bitcoin, is treated as property for U.S. federal income tax purposes.** Consequently, transactions involving CVC are treated as barter transactions. In general, each party in a barter transaction is viewed as both a buyer (of the goods or services acquired) and a seller (of the goods or services given in exchange). See our [client alert](#) of March 26, 2014. New Jersey conforms to the federal treatment of CVC for corporate and personal income tax purposes, including wage withholding and reporting of payments to independent contractors.
2. **In New Jersey, sales tax is imposed on the buyer, but the seller is obligated to collect and remit the tax.** Sellers of taxable goods or services that accept CVC in exchange for those taxable goods or services must register with the New Jersey Division of Taxation for sales tax purposes.
3. **Where a customer exchanges CVC for taxable goods or services, the customer owes sales tax as if it paid in U.S. dollars.** In this case, the sales tax owed is determined by the market value of the CVC exchanged, converted into U.S. dollars at the time of the exchange, and the seller of the goods or services that are taxable is required to collect and remit the sales tax on the transaction. On the other side of the barter transaction, the seller of the CVC (the customer) is not required to collect and remit sales tax on the transaction because the CVC is nontaxable intangible property under New Jersey sales and use tax law.
4. **The sale of CVC itself in exchange for U.S. dollars or in exchange for another CVC does not create a sales tax obligation on the part of either the seller or the buyer.**
5. **Sellers accepting CVC must record in U.S. dollars at the time of each transaction the value of the CVC accepted, the value of the goods or services sold, and the amount of sales tax collected.** The sales tax is based on the value of the CVC converted to U.S. dollars at the time of a

<sup>1</sup> See our December 15, 2014 [client alert](#) for a discussion on New York State's taxation of virtual currency.

taxable transaction. Sellers must record the value of the CVC accepted at the time of each transaction in U.S. dollars and the cash value of the goods or services sold. The amount of sales tax collected by the Seller must be recorded in U.S. dollars at the time of each transaction, and must be remitted in U.S. dollars. Sellers who accept CVC as payment for goods or services must also retain documentation of the amount for which they regularly sell the same or similar property to customers for U.S. dollars.

*The information presented is only of a general nature, intended simply as background material, is current only as of its indicated date, omits many details and special rules, and accordingly cannot be regarded as legal or tax advice.*

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the authors below.

Richard E. Nielsen [\(bio\)](#)  
San Francisco  
+1.415.983.1964  
[richard.nielsen@pillsburylaw.com](mailto:richard.nielsen@pillsburylaw.com)

Michael J. Cataldo [\(bio\)](#)  
San Francisco  
+1.415.983.1954  
[michael.cataldo@pillsburylaw.com](mailto:michael.cataldo@pillsburylaw.com)

Paul T. Casas [\(bio\)](#)  
San Francisco  
+1.415.983.1019  
[paul.casas@pillsburylaw.com](mailto:paul.casas@pillsburylaw.com)

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