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currencies.

Isaac M. O'Bannon • May. 08, 2014

One of the leading developers of online sales and use tax automation software has developed the first such system to support [bitcoin](#) and other virtual online currencies.

[Avalara](#), Inc., which offers automated sales tax systems for businesses ranging from small ecommerce shops to major international retailers, has enabled the new bitcoin module for its AvaTax compliance engine. This feature will enable the calculation and accounting of sales tax for bitcoin transactions, allowing retailers, digital wallets, and other digital currency processors to calculate sales tax and VAT tax for bitcoin transactions in real-time.

A digital currency [created in 2009](#), bitcoin is described as a “peer-to-peer” payment system that isn't controlled by a national government, as most traditional currencies are. This has led to some concern from investors because of [perceived volatility](#) in the value or exchange rate of bitcoin versus other currencies, as well as actions by some governments to consider bitcoin something other than a currency for the purpose of tracking and taxation. The U.S. Treasury Department, for example, [recently ruled](#) that bitcoin holdings are property when it comes to tax purposes, not currency.

This hasn't stopped many individuals and businesses around the world from having a preference for the e-currency, including a police chief in the U.S. who, late last year, requested that his city [pay his salary in the semi-legal tender](#).

However, with Avalara providing a tool for businesses to accurately track, manage and report transactions that use the virtual currency, is bitcoin going “legit?” It at least allows legitimate, tax-paying organizations to comply with the taxing jurisdictions in which they do business. After all, Avalara produces sales tax, use tax

and value added tax systems used by companies around the world – systems that are

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from the get-go,” said Webb Stevens, Avalara’s Head of Product. “Whether it’s preparing merchants to quickly address the litany of sales tax holidays or helping businesses run entirely on bitcoin, Avalara works hard to ensure customers have real solutions, real fast. The ability to process sales tax for Bitcoin transactions is one of the final, necessary steps to support bitcoin-driven business models – and the latest example of our forward-thinking approach.”

Bitcoin has been [growing in popularity](#) over the past few months, and point of sale applications and other key payment technologies are also evolving to handle bitcoin transactions. Bitcoin has generated growing interest among online businesses in part because of its potential to enable frictionless transactions with customers anywhere in the world. Moreover, merchants are attracted to the promise to reduce or eliminate currency conversion fees, credit card transaction fees and outright fraud.

That said, if a merchant conducts business using bitcoin in the United States or Europe they must calculate, collect and file sales tax of some sort. “With many online business processing millions of transactions per day, it’s critical that they get accurate and compliant sales tax rates for every transaction,” said Stevens. “Avalara intends to innovate in the handling of cryptocurrencies, just as have in handling tax and compliance issues for virtual goods, digital services and highly mobile location-based transactions.”

Automation • Digital Currency • Sales Tax

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