



# CIRLES

**TAX ASSESSMENT  
FOR BUSINESS PARTNERS  
IN GERMANY**

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**TAXATION IS RELATIVE TO YOUR JURISDICTION AND MUST BE HANDLED ACCORDINGLY. WE DO NOT OFFER TAX ADVICE, AND RECOMMEND THAT YOU SPEAK WITH AN EXPERT FROM YOUR AREA.**

**BELOW ARE SAMPLE TAX ASSESSMENTS OF CONCRETE ECONOMIC CONSUMPTIONS OF CIRCLES, BASED ON GERMAN LAWS.**

# STEP 01. MINTING

**Start account balance:**

Helga: 0 Helga-Token

Nico: 0 Nico token

**Process:**

Helga and Nico (private persons) generate (mint) 240 Nico and Helga tokens each per month.

**Final account balance:**

Helga: 210 Helga-Token

Nico: 210 Nico-Token

**QUESTION:**

Is this process tax neutral and regulatorily clean?

**ANSWER:**

From the perspective of private individuals (Helga and Nico), the minting of tokens is a taxable inflow of tokens and the inflow is to be evaluated according to §22 Nr.3 EStG. "Minting" can be compared to "staking". "Minting" can be compared with "staking". The value of the tokens can be determined by using Circles. Although the Helga and Nico tokens are not listed on any stock exchange, they can be exchanged at any time for Circles in the ratio 1:1. If the value of the Circles is €1 per Circle when the Nico and Helga tokens are mined, the inflow of Helga and Nico tokens is also valued at this value.

Since the tokens were not purchased, no tax is due on their sale and the tokens can be sold tax-free or exchanged for Circles at any time.

From a regulatory point of view, the process is unproblematic.



## STEP

# 02.

## SERVICE PROVISION AMONG PRIVATE PERSONS

### Start account balance:

Helga: 40 Helga-Token

Nico: 40 Nico-Token

### Process:

Helga asks Nico to water her flowers in her absence. For this she pays 20 Circles. Nico makes the best cupcakes in the neighbourhood and Helga buys a plate for 20 Circles.

### Final account balance:

Helga: 0 Helga token

Nico: 40 Nico tokens, 40 Helga tokens.

### QUESTION:

Is this income taxable for Nico? If Nico makes a lot of cupcakes and waters all the plants in the neighbourhood during her vacation, but doesn't do it for a living, can Nico reach a high level of income that is taxable?

### ANSWER:

It depends on the amount of income Nico earns for watering flowers and cupcakes: If Nico has a full-time job, he may earn up to 410 EUR (2022) per year tax-free as a side-line, § 46 para. 2 No. 1 EStG. If Nico provides services on a regular and permanent basis for a fee or consideration, he must register a business and must pay tax on his income. Under certain circumstances, he also has to pay sales tax if he exceeds the limits of the small entrepreneur according to §19 UstG (Kleinunternehmer).

If Nico is unemployed, and if he receives Hartz IV, any earnings in excess of 100 EUR per month will be credited on a percentage basis. From a tax point of view, the cupcake sale will then be the main source of income and therefore represent a commercial activity. However, this is tax-free up to the basic allowance of 9.984 EUR per year (2022).



## STEP 03.

# COMMERCIAL TRADE

### Start account balance:

Helga: 240 Helga-Token

Nico: 240 Nico-Token

Basic Income Bauernhof GmbH: 0 Nico- / Helga-Token each

### Process:

Helga and Nico (private person) each buy from the Basic Income Bauernhof GmbH (commercial) for 200 Circles five vegetable crates with a total value of 400€.

### Final account balance:

Helga: 40 Helga-Token

Nico: 40 Nico-Token

Basic Income GmbH: 400 Circles-Token (200 Nico-Token + 200 Helga-Token)

### QUESTION:

1) Is this process clean for regulatory purposes?

2) Which taxes are calculated here in the accounting of the GmbH?

### ANSWER:

1) Yes, the only difference to a normal business transaction is that the goods are not paid in a fiat currency such as Euro, but in crypto. This is not relevant for regulatory purposes.

2) As the LLC (GmbH) is a balance sheet company, the vegetable crates are removed from the assets of the LLC when sold. Since an exchange transaction is involved, the tokens are recognized in the balance sheet at the fair value of the vegetable crates in accordance with § 6 (6) p. 1 EstG. This results in a taxable profit.

3) What does the invoice from the GmbH to Nico look like?

4) What information does the tax advisor of the GmbH need to be able to make correct bookings?

3) When selling goods (vegetable crates) against crypto-currencies, a fee in the form of crypto-currencies is incurred. No sales tax is incurred for the use of the Circles for payment of the fee. On the other hand, the purchased goods or services are subject to sales tax as usual. That means that the basis of assessment is basically determined by the value of the respective crypto currency, which in turn results in the sales tax. Only the sale of crypto currencies against fiat money and the exchange of crypto currencies is tax-free according to the decision of the ECJ under § 4 No. 8 b UStG. On the invoice, the sales tax must be shown accordingly as in any normal invoice. The gross price of the vegetable crate in Euro will be converted to the value of Circles and displayed accordingly. The value in Euro must also be shown.

4) For the entries, the tax consultant must be able to understand the amount of Circles “collected” and the common value of the vegetable boxes at the moment of sale. Both are regularly shown on the invoice/receipt.



## STEP 04. SERVICE

### **Start account balance:**

Helga: 40 Helga-Token

Nico: 40 Nico-Token

Circles Coop: 400 CRC (200 Nico tokens + 200 Helga tokens)

Circle Startup Agency Association: 0 Nico tokens

### **Process:**

Circle Startup Agency Association (economically oriented) writes a blog article for Basic Income Bauernhof GmbH (trade) about the tax-legal assessment of Circles for entrepreneurs and the association writes a service provider invoice to Basic Income Bauernhof GmbH.

### **Final account balance:**

Helga: 40 Helga-Token

Nico: 40 Nico-Token

Basic Income Bauernhof GmbH: 0 Circles token

Circle Startup Agency Association: 400 Circle-Token (200 Nico-Token + 200 Helga Token)

### **QUESTION:**

Do the same rules apply here for B2B (Business to Business) transfer as for B2C (Business to Consumer)?

### **ANSWER:**

Yes, the same rules apply as for B2C. Invoice with value of the Circles in Euro and quantity of the Circles. The VAT must be shown separately, including the quantity of Circles and the value in Euro.

# STEP 05. EMPLOYMENT



## **Start account balance:**

Helga: 40 Helga-Token

Nico: 40 Nico-Token

Basic Income Bauernhof GmbH: 0 Circles-Token

Circle Startup Agency Association: 400 Circle-Token (200 Nico-Token + 200 Helga Token)

## **Process:**

Nico as an active board member of the Circle Startup Agency Association receives a monthly salary of 1000€ net. He accepts as salary payment 600€ and 400 Circles (200 Nico Circles and 200 Helga Circles)

## **Final account balance:**

Helga: 40 Helga-Token

Nico: 240 Nico tokens + 200 Helga tokens

Basic Income Bauernhof GmbH: 0 Circles-Token

Circle Startup Agency Association: 0 Circle-Token

## **QUESTION:**

Can the association pay the salary of its employees partly in Circles, provided the employee accepts Circles?

## **ANSWER:**

Basically yes, but the conditions should be specified accordingly in the employment contract. According to § 107 GewO para. 1 the salary must be paid in Euro. However, according to § 107 GewO para. 2, the salary can also include non-cash benefits in the amount of approximately 25%, i.e. 25% of the salary can be paid in Circles. It should be possible to determine the value of the Circles in euros. It should also be noted that wage tax and social security contributions are to be paid in Euro depending on the salary.



## STEP 06.

# ASSOCIATION MEMBERS

### **Start account balance:**

Helga: 40 Helga-Token

Nico: 240 Nico tokens + 200 Helga tokens

Circle Startup Agency Association: 0 Circles.

### **Process:**

Helga and Nico (private persons) become members of the Circle Startup Agency Association and pay 30 CRC / month membership fees each and get votes for which projects are accepted into the association (e.g. new Circle Startup entrepreneurs), which are supported with the Circles membership fees.

### **Final account balance:**

Helga: 10 Helga-Token

Nico: 210 Nico tokens + 200 Helga tokens

Nico's Circles Startup Agency Association: 60 Circle Tokens (30 Nico Tokens + 30 Helga Tokens)

### **QUESTION:**

1) Can the association also accept its membership fees in Circles?

### **ANSWER:**

1) Yes, but according to § 58 No. 2 BGB (German Civil Code) the statutes of the association must contain provisions on whether and which contributions the members of the association are obliged to pay. The contributions do not necessarily have to consist of monetary contributions, but can also consist of e.g. contributions in kind. Accordingly, also crypto currencies are to be evaluated as contributions.

2) Are there any taxes on the Circles' membership fees?

2) If it concerns genuine member contributions (if the contribution is used for the fact that the association follows the total interests of all members and no achievement exchange with individual members comes off) the contributions serve thus the statutory community purposes, are not subject to the value added tax. If, however, an exchange of services takes place, the services must be charged with value added tax. The details are complicated and in individual cases highly controversial, so that an exact examination may be necessary.



## STEP

# 07. EXCHANGE CIRCLES FOR EUROS

### Start account balance:

Helga: 10 Helga-Token

Nico: 210 Nico tokens + 200 Helga tokens

Basic Income Bauernhof GmbH: 0 Circles-Token

Circle Startup Agency Association: 60 Circle Tokens  
(30 Nico Tokens + 30 Helga Tokens)

### Process:

The members of the Circle-Startup Agency Association have agreed that an open source software project will be developed and exchange their 60 Circles on a decentralized stock exchange for 40€ at the Basic Income Bauernhof GmbH, so that it can pay the employer's shares of its employed programmers and the taxes of the association in Euro.

### Final account balance:

Helga: 10 Helga-Token

Nico: 210 Nico tokens + 200 Helga tokens

Basic Income Bauernhof GmbH: 60 Circles-Token  
(30 Nico-Token + 30 Helga-Token)

Circle Startup Agency Association: 0 Circle-Token

## QUESTION:

1) What happens fiscally on the level of the association (or another commercial person, such as a limited liability company or cooperative) that theoretically has a 20€ loss of exchange rate.

## ANSWER:

1) Depending on the value at which the 60 Circles have been received by the club, a loss in value may occur. For example, if the club receives 60 CRC (value of 60 EUR) as membership fee and if the club sells 60 CRC (value of 40 EUR) on the stock exchange, a tax-relevant loss of 20 EUR may occur.

2) What happens for tax purposes at the level of Basic Income Bauernhof GmbH when buying Circles token?

3) How is the exchange rate gain offset for tax purposes if Basic Income Bauernhof GmbH exchanges the 60 Circles purchased (for €40) for a product or service of 60 Circles = €60 in exchange for another service provider?

4) Which regulatory issues have to be considered for the euro / Circles exchange?

2) Operating expenses at the value of the Circles (40 Euro) at the time of purchase of the tokens and receipt of "goods" (60 Circle Token).

3) In this case Basic Income Bauernhof GmbH would have a tax-relevant profit of 40 Euro when selling the 60 Circles at 60 Euro.

4) The use of Circles as a means of payment is unproblematic from a regulatory point of view. It will only become relevant when the GmbH makes itself generally available as a marketplace for the exchange of tokens. One can exchange Nico tokens for Helga tokens via the GmbH, for example. This fulfills the facts of the so-called proprietary trading and requires a license.

**IN CIRCLES  
COMMUNITIES  
CAN GIVE  
EACH OTHER  
BASIC INCOME  
WITHOUT  
WAITING FOR  
THE STATE.**