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Tax Challenges in Debt Financing Involving Digital Tokens

By

Vincent OOI[*]

Abstract

When digital tokens are used in debt finance, one cannot assume that the same orthodox tax treatment will apply. The highly specific nature of tax provisions means that they may apply very differently once digital tokens rather than fiat currency are involved. Through a case study of Singapore law, this article shows that if debt finance transactions involving digital tokens are not carefully structured, there may be severe tax consequences, including the inability to deduct borrowing costs or benefit from common tax incentives, and the possible incurrence of additional tax liabilities. This article submits that, under Singapore tax law, it may be difficult to argue that digital tokens are in fact "money", whether they be digital payment tokens and/or asset-backed tokens. It highlights potential differences between situations where digital tokens are the assets being loaned, used to pay for borrowing costs, or used as a medium of recording the transaction.

I. INTRODUCTION

The application of blockchain technology[1] in the corporate finance sphere has created many new innovations[2] such as asset-backed tokens,[3] debt and equity security tokens,[4] and decentralised finance ("**DeFi**").[5] These innovations have the potential to greatly facilitate the

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[1] For a brief introduction to blockchain technology, see Jean Bacon, *et. al.*, "Blockchain Demystified: A Technical and Legal Introduction to Distributed and Centralised Ledgers" (2018) 25(1) Richmond Journal of Law & Technology 1-106.

[2] Vedat Akgiray, "The Potential for Blockchain Technology in Corporate Governance", (2019) OECD Corporate Governance Working Papers No. 21, (available at https://doi.org/10.1787/ef4eba4c-en) (accessed on 1 September 2022) at p 10. Also see Vincent Ooi, *et. al.*, "Blockchain Land Transfers: Technology, Promises, and Perils" (2022) 45 (105672) Computer Law & Security Review 1-13

[3] Asset-backed tokens generally refer to tokens which are backed by other kinds of assets, such as other currencies or precious metals. See Rosa Garcia-Teruel and Hector Simon-Moreno, "The Digital Tokenization of Property Rights – A Comparative Perspective" (2021) 41(105543) Computer Law & Security Review 1, 4-5.

[4] A security token may be defined as "a digital representation of an investment product, recorded on a distributed ledger, subject to regulation under securities law". See Thomas Lambert, *et. al.*, "Security Token Offerings" (2021) Small Business Economics 1, 4.

[5] Decentralised finance broadly refers to any blockchain based financial infrastructure that replicates financial services but does not rely on intermediaries or centralised institutions. See Fabian Schär, "Decentralized Finance: On Blockchain- and Smart Contract-based Financial Markets" (2021) 103(2) Federal Reserve Bank of St. Louis Review 153.

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raising of capital by businesses. They can make the process more efficient by automating certain parts of the process with smart contracts,[6] matching available capital to businesses more quickly and boosting liquidity.[7] Crucially, they can also facilitate access to new capital markets by lowering the barriers to entry, both on the part of businesses seeking to raise capital and investors seeking returns on their capital. Much of the DeFi movement focuses on enabling smaller players to seek and offer financing,[8] where it might have previously been uneconomical for them to do so through traditional capital markets.[9] As such, the use of digital tokens in corporate finance can both boost the efficiency of the process of raising capital and open up access to new capital markets.

Tax considerations are extremely important in determining the viability of these new innovations in raising capital. At a broad level, tax considerations boil down to two main questions: whether businesses raising capital can deduct the carrying costs of capital, and how investors providing capital will be taxed on their returns. While the impact of taxation may fall at first instance on either the investors or the businesses, ultimately tax is a cost of raising capital that will eventually affect both parties. For traditional processes of raising capital, the relevant tax costs are relatively well-established and predictable due to the system having been in place for many years. Difficulties may arise where the tax treatment of corporate finance transactions prove to be very different where digital tokens are used, as opposed to traditional processes.

There is a very real risk of this difference in tax treatment occurring. Tax provisions relating to corporate finance transactions tend to rely on highly specific terms-of-art that are commonplace in the world of finance, but which may not apply when digital tokens are involved. This author has previously argued that there appears to be a correlation between how broadly a particular tax provision is drafted and how likely the tax treatment of a transaction is to follow the existing orthodox tax treatment where digital tokens are involved. Or to look at it another way, the more specific an existing tax provision is with respect to the types of assets and asset classes that trigger the application of the provision, the less likely it will be that transactions involving digital tokens will be subject to the same tax treatment as traditional transactions not involving them.[10]

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[6] See Marc Hamilton, "Blockchain Distributed Ledger Technology: An Introduction and Focus on Smart Contracts" (2020) 31(2) The Journal of Corporate Accounting & Finance 7.

[7] For example, through the use of liquidity pools, which perform a "market-making" function. See Schär (n 5) 162-163.

[8] DeFi loans do not require the lenders or borrowers to identify themselves, are permissionless, and are not reliant on trusted relationships. These features would likely help smaller players. Some key characteristics that may help to enable small players in particular are the "open" and "public" nature of its networks, which means that there are fewer restrictions on participation in the blockchain. See Hamilton, (n 6), 8.

[9] For the various barriers which smaller players face in accessing traditional capital markets, see Shigehiro Shinozaki, "Capital Market Financing for SMEs: A Growing Need in Emerging Asia" Asian Development Bank Working Paper Series on Regional Economic Integration (2014) (available at https://www.adb.org/sites/default/files/publication/31179/reiwp-121.pdf) (accessed on 1 September 2022) at pp 13 and 24.

[10] Vincent Ooi, 'A Framework for Understanding the Taxation of Digital Tokens' (2021) 50(4) Australian Tax Review 260-269.

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This article will focus on debt financing in particular because the deviation in tax treatment between traditional debt financing transactions and those involving digital tokens is likely to be very keenly felt in this area indeed, far more so than for equity financing. The carrying costs of equity financing are not typically tax-deductible, whereas the carrying costs of debt financing typically are.[11] This means that there are likely to be a whole range of carefully-drafted tax provisions governing the deductibility of borrowing costs in debt financing.[12] This is an area that has traditionally been a massive spawning ground of tax avoidance schemes, so one can be sure that the statutory provisions here are tightly-drafted, specific and likely to be very conservative.

To give an example, a statutory provision governing the deductibility of borrowing costs could be considered to be a lot more broadly drafted if it makes reference to "any outgoings or expenses incurred for the purposes of securing or maintaining a loan, line of credit, or debt" than if it merely makes reference to "any interest incurred on a loan". In the case of the latter, the specific terms "interest" and "loan" make it difficult for the tax provision in question to catch other forms of "functionally equivalent" borrowing costs or borrowings without a potentially lengthy exercise in statutory interpretation of the terms "interest" and "loan".[13] For the abovementioned reasons, tax provisions governing deductions in debt financing are far more likely to be drafted in a more specific manner than in a broad manner. This in turn creates difficulties for taxpayers seeking to rely on these provisions to make legitimate deductions in transactions involving digital tokens which are "functionally equivalent" to their traditional counterparts.

There are a couple of conceptual distinctions that have to be laid out first before considering the extent of the differences in tax treatment between traditional debt finance transactions and those involving digital tokens. Firstly, there are a number of roles which digital tokens can play in debt finance transactions. The tokens can be the assets themselves which are being transferred between the issuers of debt securities and the investors. This can be sub-divided into a further two sub-categories: where the token is a derivative of some other (non-token) asset (commonly known as an asset-backed token), and where the token is not such a derivative and therefore has value in its own right (a common example would be digital payment tokens ("**DPTs**") that are not intended to be redeemed from the issuer). Then again, the tokens could merely be the means by which a debt finance transaction is conducted or recorded. In such a situation, while tokens may indeed be transferred between the parties, it is not just the tokens being transferred, but also other underlying assets. An example of this would be the use of smart contracts in blockchain system to automatically conclude a contract once certain terms are met.[14] The underlying obligation under the contract may be in relation to a

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[11] See Michael Overesch and Dennis Voeller, "The Impact of Personal and Corporate Taxation on Capital Structure Choices" 66(3) Public Finance Analysis 263, 268-269.

[12] See, for example, the Income Tax (Deductible Borrowing Costs) Regulations 2008 (No. S 115).

[13] In fact, this was precisely the problem faced by the taxpayer in the Singapore case of *BFC v CIT* [2014] 4 SLR(R) 33 at [44]-[48], where the Singapore Court of Appeal held that "discounts" and the "redemption premium" incurred by the taxpayer did not qualify as "interest" and thus, were not deductible under the tax provision in question.

[14] For example, the Ethereum is a blockchain platform that allows developers to implement self-executing or smart contracts by coding automated procedures. See Hamilton, (n 6), 9-10.

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non-token asset. Just as no one would realistically view the paper on which a traditional debt finance instrument is written on to be the asset in question, the token in such a situation is merely a medium of record. This article will show that tax concerns typically arise in situations where digital tokens are used as the assets being transferred and not where they are used as a medium of record.[15]

Secondly, are the digital tokens the assets being borrowed, the assets used to pay for the borrowing costs, or both? In other words, are their roles analogous to the capital sum or a loan, the interest payments, or both? It is certainly conceptually clear that just because the assets loaned out are digital tokens, it does not mean that the borrowing costs must necessarily be paid using digital tokens, and vice versa. One might well imagine a situation where, for example, DPTs (like Bitcoin) are loaned out under an agreement that requires the interest to be paid in fiat currency. It might even be possible for the agreement to require that the capital sum be repaid in fiat currency, effectively incorporating another transaction converting DPTs into fiat currency. This article will show that due to the way that certain tax provisions are drafted, there may well be a difference in the tax treatment of debt finance transactions involving digital tokens depending on whether the digital tokens are the assets being borrowed, the assets used to pay for the borrowing costs, or both.

Having addressed these conceptual issues, this article will now move on to a real-life case study of a major capital markets jurisdiction, Singapore. While very much will depend on the precise tax provisions in question, it is expected that somewhat broadly similar issues may also arise in other jurisdictions.[16] It is a fundamental matter of good tax design for tax systems to draft tax provisions governing debt financing transactions narrowly, to prevent taxpayers from abusing overly generous deduction provisions. This, coupled with the fact that the vast majority of tax provisions across various jurisdictions were drafted well before the use of digital tokens in debt finance, means that it may well be unclear what the tax position might be in such transactions, regardless of the jurisdiction in question.

This article will show that under Singapore law as it currently stands, there is a real risk that if debt finance transactions involving digital tokens are not carefully structured, there may be very severe tax consequences, including the inability to deduct borrowing costs and other expenses, being unable to avail oneself of common tax incentives, and the possible incurrence of Goods and Services Tax ("**GST**") (the equivalent of Value Added Tax) liabilities. Some of these consequences can be ameliorated or avoided through careful tax structuring, whilst others may be almost impossible to structure around, necessitating a change in the overall structure of the debt finance transaction, perhaps even precluding the use of digital tokens in the transaction.

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[15] It is noted that in jurisdictions which still have a system of stamp duties that are based on the precise instruments in question (e.g. Singapore, and not countries like the United Kingdom), there may be some tax differences arising from the use of digital tokens as a medium of record.

[16] For example, Australia has a specific legislative regime for share buybacks, where capital gains tax may be imposed. The language of the statute refers expressly to "shares", making it questionable whether the regime would similarly apply to "functionally equivalent" security tokens. See Ooi, (n 10) and The Australian Income Tax Assessment Act 1936, Division 16K.

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II. "MONEY" AND "INTEREST"

In Singapore tax law, the terms "interest" and "money" are used fairly widely in the tax provisions relating to debt financing. One of the core issues affecting the potentially different tax treatment of debt finance transactions involving digital tokens and traditional transactions not involving them, is the question of the extent to which digital tokens can be considered to meet the definition of "money" and "interest". This article will suggest that it may not be quite so easy to establish this, though the position still remains rather unclear. If digital tokens cannot be considered to be legally the same as their "functional equivalents" for the purposes of the tax provisions relating to debt financing, then we would expect to see quite major deviations in the tax treatment of debt financing transactions depending on whether digital tokens are involved.

A. "Money"

For a concept as ubiquitous as money, it is certainly curious that there does not appear to be a readily available definition. The *locus classicus* appears to be the old English case of *Moss v Hancock*, where Channell J accepted that money could be defined as "that which passes freely from hand to hand throughout the community in final discharge of debts and full payment for commodities, being accepted equally without reference to the character or credit of the person who offers it and without the intention of the person who receives it to consume it or apply it to any other use than in turn to tender it to others in discharge of debts or payment for commodities."[17] As noted above, where the tokens are the assets themselves being transferred between issuers of debt securities and the investors, they can either be derivatives of other (non-token) assets (asset-backed tokens) or have value in their own right (for our present purposes, we will refer to them as DPTs, which are likely to be the most common kind of token to fit into this category).[18]

DPTs appear to be capable of satisfying some elements of this definition of money, but at the present moment at least, not all of the elements. In particular, it is hard to say that DPTs "*pass freely* from hand to hand *throughout the community*". The acceptance of DPTs is perhaps not quite widespread enough to satisfy that condition just yet, though this is of course, debatable. Asset-backed tokens are even less likely to satisfy all the conditions. Firstly, they are not generally used in final discharge of debts and full payment for commodities. Perhaps this condition might be easier to meet if the underlying assets are fiat currency (like in the case of stablecoins backed by fiat currency). Secondly, some kinds of asset-backed tokens are actually intended to allow for the redemption of the underlying assets, which runs contrary to

[17] *Moss v Hancock* [1899] 2 QB 111, adopting the definition laid out in Francis Walker, *Money, Trade and Industry* (Holt) (1879), 4.

[18] Strictly speaking, the description of tokens which have value in their own right can cover quite a range of different kinds of tokens and not just DPTs. A prominent example would be that of Non-Fungible Tokens ("**NFTs**"), which are generally not intended to be redeemed for goods or services (not utility tokens) nor asset-backed tokens. However, it would be a real stretch to say that NFTs could be considered to be "money".

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the condition that "money" cannot be intended to have any use other than to tender it to others in discharge of debts or payment for commodities. Again, this point is debatable, but it is likely that most asset-backed tokens will not meet the definition of "money".

Moving away from a common law definition of "money", there are some statutory provisions in Singapore law that make reference to the term. Section 2 of the Goods and Services Tax Act 1993 (2020 Revised Edition) ("**SGSTA**") states that ""money" and "currency" include currencies whether of Singapore or any other country but does not include a collector's piece, investment article or item of numismatic interest". Unfortunately, this inclusive definition does not conclusively tell us whether digital tokens can be considered to be "money" in some situations. Other references to "money" exist in non-tax statutes like the Singapore Payment Services Act 2019 (No. 2 of 2019) ("**SPSA**"), though the rather different aims of this piece of legislation (of financial regulation of payment systems and payment service providers) makes the applicability of the definitions contained therein to the tax context rather suspect.[19]

While it is difficult to conclusively determine whether some digital tokens can be said to be "money", it is probably more likely than not that most digital tokens simply do not fall within the definition of that term. Section 2A(2) of the SGSTA provides that "A reference in this Act to a digital payment token does not include any of the following: (a) money…" Of all the different kinds of digital tokens, DPTs are the most akin to money, and yet they have been expressly distinguished from "money" in the SGSTA.

B. "Interest"

There is some case law guidance on the definition of "interest" in Singapore law. In *Chng Gim Huat v PP*, Yong Pung How CJ, sitting in the Singapore High Court, held that the "essence" of "interest" was "compensation for the deprivation [of] the use or delayed payment of money by another".[20] The Court of Appeal in *BFC v CIT* went on to add that for a payment in respect of a loan to constitute interest, the amount of that payment should depend on the length or duration of the loan, though there was no requirement that such payments must be made at periodic intervals.[21] This proposition was summed up in the statement by the Court of Appeal that "monetary consideration for a loan is "interest" only in so far as the amount of consideration payable depends on the duration of the period for which the loaned money is in

[19] The various definitions in section 2 of the SPSA actually do support an interpretation of "money" that might well include certain kinds of digital tokens. The section provides that ""money" includes e-money but excludes any digital payment token and any excluded digital representation of value" and that ""e-money" means any electronically stored monetary value that — (a) is denominated in any currency, or pegged by its issuer to any currency; (b) has been paid for in advance to enable the making of payment transactions through the use of a payment account; (c) is accepted by a person other than its issuer; and (d) represents a claim on its issuer, but does not include any deposit accepted in Singapore, from any person in Singapore" (emphasis added). The reference to being "pegged to any currency" suggests that some forms of asset-backed tokens might actually be considered to be "money" for the purposes of the SPSA, though DPTs are expressly excluded.

[20] *Chng Gim Huat v PP* [2000] 2 SLR(R) 360 at [36], cited with approval by the Singapore Court of Appeal in *BFC v CIT* (n 13) at [50].

[21] *BFC v CIT* (n 13) at [52].

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the borrower's hands."[22] In fact, the Court noted that counsel for the Appellant had submitted that "interest" should be defined as "any and all monetary consideration flowing from a borrower to a lender for a loan of, specifically, money." The Court went on to reject this formulation, saying that a less liberal interpretation would be more appropriate.[23]

There appears to be some considerable emphasis on the requirement that for something to be considered as interest, it must necessarily be compensation for the deprivation of the use of money. It would thus appear to be the case that the definition of "interest" is in fact dependent on the definition of "money", as discussed above. It is true, of course, that as there has not been any tax case involving digital tokens in the debt financing context thus far in Singapore, the Court in *BFC v CIT* obviously framed the issue of "interest" in terms of "money", since there was no other potentially viable alternative to fiat currency when the case was being heard. It is possible that had digital tokens existed and been in widespread use at the time, the Court might well have considered whether "interest" could include digital tokens flowing from a borrower to a lender for a loan of, *inter alia*, other digital tokens. However, such a hypothetical consideration only serves to show that the Singapore courts have not yet expressly ruled on this point and does nothing for the current uncertainty in this area.

The current legal position on the definitions of "money" and "interest" appear to indicate that it is unlikely that digital tokens can be considered to be "money" and that since the definition of "interest" makes reference to "money", it is similarly unlikely that any digital tokens paid to satisfy borrowing costs would be considered to be "interest" either. While the position is still open to some extent, since a case involving digital tokens has not yet been brought before the Singapore courts, this level of uncertainty is clearly unacceptable to any corporate finance practitioner seeking to structure debt finance transactions using digital tokens. Until it is clear that "money" and "interest" include digital tokens, it might be thought to be prudent to steer clear of this area and instead adopt traditional debt finance structures that do not use digital tokens.

III. TRADITIONAL DEBT FINANCE TRANSACTIONS NOT INVOKING DIGITAL TOKENS

While the terms "money" and "interest" are certainly quite commonly used in the tax provisions governing debt finance transactions, the terms are not referenced in all of the provisions, meaning that there might be situations where it might not matter that digital tokens are used in debt finance transactions; the tax treatment might be the same as for traditional debt finance transactions that do not involve digital tokens. To understand this, it is necessary to go

[22] *BFC v CIT* (n 13) at [49]. As a historical note, when the facts on which the *BFC v CIT* was decided occurred, section 14(1)(a) had not yet been further subdivided into sections 14(1)(a)(i) and (ii). Instead, the section only provided for the deduction of interest expenses and not sums payable in lieu of interest or for the reduction thereof. Thus, the Court of Appeal in *BFC v CIT* decided that the discounts and redemption premium incurred in that case were not "interest" and accordingly not deductible. Section 14(1)(a)(ii) and the 2008 Regulations were only added later, to allow for the deduction of certain other kinds of borrowing costs expenses.

[23] *BFC v CIT* (n 13) at [46]-[47].

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through the rather complex mess of tax provisions that govern the deductibility of borrowing costs in debt finance transactions not involving digital tokens.

A. The Key Provisions

In recent years, there is perhaps no other area of Singapore tax law that has received more judicial consideration than that of the deductibility of borrowing costs. Much of this complexity arises from the interaction of three provisions in the Singapore Income Tax Act 1947 (2020 Revised Edition) ("**SITA**"): sections 14(1), 14(1)(a), and 15(1)(c). Section 14(1) of the SITA is the general provision permitting deduction of expenditure, providing that a taxpayer may deduct "all outgoings and expenses wholly and exclusively incurred … in the production of the income, including..." As with many tax provisions of a similar nature (largely within the Commonwealth), section 14(1) is broadly drafted and seems well-capable of coping with the new innovations in corporate finance described above.

Sections 14(1)(a) to (h) are a list of provisions providing for the deductions of expenditure in non-exhaustive specific instances. Since section 14(1) itself ends with the word "including", before going on to list the various specific instances in sections 14(1)(a) to (h), it follows that a taxpayer may seek to qualify for a deduction under section 14(1) generally, or any of the subsections (a) to (h) specifically. The fact that an expenditure does not fall under any of the specific instances in sections 14(1)(a) to (h) does not mean that it is precluded from being claimed as a deduction, provided that it falls within the generality of section 14(1).

For borrowing costs, section 14(1)(a) governs this specific instance, allowing for deductions of "except as provided in this section — (i) any sum payable by way of interest; and (ii) any sum payable in lieu of interest or for the reduction thereof, as may be prescribed by regulations …, upon any money borrowed by that person where the Comptroller is satisfied that such sum is payable on capital employed in acquiring the income." It would thus appear that a taxpayer wishing to claim a deduction for expenses incurred as a result of taking a loan should be able to bring the claim either under section 14(1) or section 14(1)(a).

However, one must also consider the effect of section 15(1)(c) of the SITA, which provides that "[n]otwithstanding the provisions of this Act, for the purpose of ascertaining the income of any person, no deduction shall be allowed in respect of — (c) any capital withdrawn or any sum employed or intended to be employed as capital except as provided in section 14(1)(h)."

B. The Interaction Between the Key Provisions

The interactions between sections 14(1), 14(1)(a) and 15(1)(c) were considered by the Singapore Court of Appeal in the leading cases of *CIT v IA*[24] and *T Ltd v CIT*.[25] The Court held

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[24] *CIT v IA* [2006] 4 SLR(R) 161.
[25] *T Ltd v CIT* [2006] 2 SLR(R) 618.

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in *CIT v IA* that the statutory framework should be read as providing for a two-tier test of deductibility. At the first tier, an expense would be *prima facie* deductible if it comes within the general deduction formula under section 14(1) or is otherwise specifically authorised pursuant to, *inter alia*, sections 14(1)(a) to (h). At the second tier, these inclusionary provisions would then be subject to the exclusionary clauses contained in section 15(1), which enumerate expenses that are specifically disallowed as deductions. The Court concluded that an expense would be deductible only if it were to fall within the inclusionary provisions and outside the exclusionary provisions.[26] Determining whether an expense falls within the inclusionary provisions is a relatively straightforward matter of interpreting the conditions laid out in either section 14(1) or 14(1)(a), depending on the relevant section. However, the question of whether an expense falls outside the exclusionary provisions is a little more complex.

On a plain reading of section 15(1)(c), it is clear that a distinction can be drawn between two kinds of expenses. Firstly, an expense could be incurred in respect of capital withdrawn or any sum employed or intended to be employed as capital ("**a Capital Expense**"). Section 15(1)(c) precludes the deduction of any Capital Expenses. Secondly, an expense could be incurred but not in respect of capital withdrawn or any sum employed or intended to be employed as capital ("**a Revenue Expense**"). Revenue Expenses are not caught by section 15(1)(c) and are not so precluded from being deducted by the section. Thus far, it is clear that Revenue Expenses can be deducted if they meet the conditions laid out in either section 14(1) or 14(1)(a). The difficulty is with Capital Expenses.

In *T Ltd v CIT*, the Singapore Court of Appeal held that section 14(1)(a) in effect carves out an exception to section 15(1)(c). In other words, even though Capital Expenses are *prima facie* precluded from being deducted by virtue of section 15(1)(c), if the conditions under section 14(1)(a) were met, they could nevertheless be deducted.[27] However, Capital Expenses would still be precluded from being deducted by virtue of section 15(1)(c) if they were able to meet the general conditions under section 14(1), but not the conditions under section 14(1)(a).

C. Revenue and Capital Expenses

Given that Revenue Expenses can be deducted under either section 14(1) or 14(1)(a), but Capital Expenses can only be deducted under section 14(1)(a), it is important to know the test for classifying borrowing costs into the two categories. The Singapore Court of Appeal in *CIT v IA* set out a comprehensive approach as follows.

Firstly, it is necessary to ascertain what the purpose of the taxpayer was in entering into the loan (whether it was for a revenue or capital purpose). Secondly, it is then necessary to ascertain whether a sufficient linkage or relationship exists between the loan and the main transaction or project for which the loan was taken. If it is not possible to establish such a sufficient linkage or relationship, then the loan would be taken to be capital in nature. On the

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[26] *CIT v IA* (n 24) at [93].

[27] *T Ltd* (n 25) at [21], affirmed *BFC v CIT* (n 13) at [39]-[42], and then again in *BML v CIT* [2018] 2 SLR 1009 at [37].

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other hand, if such a sufficient linkage or relationship can be established, then the loan would take its nature from that of the main transaction. In other words, if the main transaction was one of a capital nature, then so too would be the nature of the loan, and vice versa.[28]

Thus, it is possible for a loan to be of a capital or revenue nature depending, *inter alia*, on the purpose for which it was taken. In *T Ltd v CIT*, the Court of Appeal further described interest as being derivative in nature, owing its existence to a loan. The Court held that whether an interest expense was a capital or revenue expense in turn depended on the purpose for which the loan is employed.[29]

D. Summary of the Existing Case Law

After analysing the relevant case law, we are essentially left with the following propositions. Firstly, borrowing costs are derivative in nature, taking their nature from that of the loans on which they are payable. In turn, loans take their nature, *inter alia*, from the purpose for which they were taken. Secondly, borrowing costs paid on loans taken for revenue purposes are not caught by section 15(1)(c) and can be deducted both under section 14(1) and 14(1)(a), so long as the conditions in the relevant section(s) are met. Thirdly, borrowing costs paid on loans taken for capital purposes, or for which it is not possible to draw a sufficient linkage between the loan and a main transaction, are capital in nature and are *prima facie* caught by section 15(1)(c). Such borrowing costs are only deductible under section 14(1)(a) but not section 14(1), since the former is an exception to section 15(1)(c) but not the latter.

E. Comparing Deductions Under Section 14(1) and 14(1)(a)

Given that Revenue Expenses can be deducted under either section 14(1) or 14(1)(a), but Capital Expenses can only be deducted under section 14(1)(a), it is important to know the differences in the conditions for claiming deductions under the two sections. For our present purposes, the main difference is that section 14(1) is broadly framed and allows for the deduction of "all outgoings and expenses wholly and exclusively incurred … in the production of the income…" while section 14(1)(a) is a lot more specific and only allows for the deduction of "interest" (under section 14(1)(a)(i)), and "sums payable in lieu of interest or for the reduction thereof, as may be prescribed by regulations" (under section 14(1)(a)(ii)), and "upon any money borrowed by that person where the Comptroller is satisfied that such sum is payable on capital employed in acquiring the income."

Two points in particular stand out from the conditions laid out in section 14(1)(a). Firstly, unlike under section 14(1), only certain sums are deductible under section 14(1)(a). The sums are those "payable by way of interest" and those "payable in lieu of interest, or for the reduction thereof, as may be prescribed by regulations." The relevant regulations in

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[28] *CIT v IA* (n 24) at [79].
[29] *T Ltd* (n 25) at [24].

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question are the Income Tax (Deductible Borrowing Costs) Regulations 2008 (No. S 115) (the "**2008 Regulations**"), of which Regulation 2(2) makes it clear that ""deductible borrowing costs" means any of the items specified in the first column of the Schedule which are of the description specified in the second column thereof." In other words, the items in the Schedule to the 2008 Regulations appear to be exhaustive. A deduction can only be successfully claimed under section 14(1)(a)(ii) if the expense in question is listed in the Schedule to the 2008 Regulations. Secondly, it is clear that the sums must be "upon money borrowed" (emphasis added).

There are other differences between the conditions for deducting borrowing costs expenses under sections 14(1) and 14(1)(a), but for the purposes of highlighting the differences between debt finance transactions involving digital tokens and those which do not, these two points are the most important ones.

IV. DEBT FINANCE TRANSACTIONS INVOLVING DIGITAL TOKENS

As discussed above, section 14(1) appears to be more broadly framed and generous than section 14(1)(a). There is no express reference to "interest" or "money" and it is arguable that the reference to "all outgoings and expenses" in section 14(1) is broad enough to apply to debt finance transactions involving digital tokens. However, only Revenue Expenses may be deducted under section 14(1). If a taxpayer wishes to deduct Capital Expenses, then the claim must be brought under section 14(1)(a) if it is to succeed. However, in a transaction where digital tokens are involved, this may not be a straightforward matter.

We can make the following propositions based on a plain reading of section 14(1)(a). Firstly, any borrowing costs incurred can only be deducted if they are paid on "interest" or other borrowing costs otherwise expressly listed in the Schedule to the 2008 Regulations. Secondly, even if the first condition is met, any borrowing costs incurred can only be deducted if they are incurred upon money borrowed. We have previously drawn a distinction between the situations where the digital tokens are the assets being borrowed, the assets used to pay for the borrowing costs, or both. Where digital tokens are used to pay for the borrowing costs, the question arises as to whether they can be said to be paid on "interest" or other borrowing costs otherwise expressly listed in the Schedule to the 2008 Regulations. Where the digital tokens are the assets being borrowed, the question arises as to whether they can be said to be "money". Where the digital tokens are both the assets being borrowed and used to pay for the borrowing costs, both questions arise.

A. "Sum Payable"

Section 14(1)(a)(i) makes reference to "any sum payable by way of interest", whilst section 14(1)(a)(ii) makes reference to "any sum payable in lieu of interest…" There is a conceptual distinction between the sum payable and the type of borrowing costs, and it is very easy to conflate the two. By way of example, "interest" can refer both to the actual sum payable and

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the type of borrowing costs. Similarly "borrowing costs" can refer both to the actual sum payable and the generic term for any of the various different types of borrowing costs. The risk of conflating these two concepts is clearly evidenced by the 2008 Regulations itself, where Regulation 2(1) states that "the prescribed sums payable by any person in lieu of interest or for the reduction thereof are any deductible borrowing costs incurred by the person" (emphasis added). Regulation 2(2) states that ""deductible borrowing costs" means any of the items specified in the first column of the Schedule which are of the description specified in the second column thereof" (emphasis added). Thus, even in the 2008 Regulations themselves, the term "deductible borrowing costs" is used to refer to both the actual sums payable and the type of borrowing costs.

In a situation where there is only one way of making payment for borrowing costs: with fiat currency, there is perhaps less of a need to draw a strict distinction between the two concepts. In such situations, the "sums payable" will always be payable in money (fiat currency). However, if another medium of exchange such as digital tokens comes along, the question arises as to whether "sums payable" necessarily refer to "sums of money only". It is submitted that while there is no clear guidance on this point, it does not appear to be necessary to give "sums payable" such a narrow definition such that it excludes all things which are not "money". It may be possible to argue that for the purposes of this section, a "sum" could be payable in digital tokens rather than fiat currency.

B. "Interest"

For a claim for deduction of borrowing costs under section 14(1)(a)(i) to succeed, there is a requirement, *inter alia*, that the relevant type of borrowing costs must be "interest". However, is it possible to say that the type of borrowing costs in question is "interest" if they are to be paid using digital tokens? After all, the Singapore Court of Appeal in *BFC v CIT* has made numerous references to "money" when discussing "interest" and we have already established that it is unlikely that digital tokens can be considered to be "money". A careful examination of the various portions of the relevant judgments that deal with "interest" reveals that while there appears to be a requirement that for borrowing costs to be "interest" – there must be the deprivation of use or delayed payment of money – there is no clear requirement that the borrowing costs must be payable in the form of money for them to be considered to be "interest". The requirement that the underlying asset loaned must be "money" is a matter to be dealt with subsequently when considering the condition that any borrowing costs incurred can only be deducted if they are incurred upon money borrowed.

In fact, wherever the Court makes reference to "interest" as being "monetary consideration",[30] it appears to be explicable on the basis that at that point of time, there was no other alternative to money that the "interest" could be paid for with. Thus, the Court would inevitably make reference to "money". There appears to be no express insistence that borrowing costs have to be payable in the form of money for them to be considered to be

[30] *BFC v CIT* (n 13) at [46]-[52].

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"interest". If this approach is accepted as correct, then any sums payable (in money or otherwise), which are "compensation for the deprivation [of] the use or delayed payment of money by another"[31] would arguably be deductible under section 14(1)(a)(i).

C. Borrowing Costs Prescribed by Regulations

Moving on to sums payable in lieu of interest or for the reduction thereof, the starting point would be the items in the Schedule to the 2008 Regulations.[32] Some of these items do make reference to "interest", but as we have just seen, the fact that the sums payable may be in digital tokens rather than "money" does not appear to pose difficulties for their deductibility. Any issues with section 14(1)(a)(ii) are likely to arise from the difficulties with fitting the borrowing costs incurred into the relevant prescribed items, which is not a problem unique to debt finance transactions involving digital tokens.

Thus, on the whole, it would appear that "sums payable" on the various types of borrowing costs under sections 14(1)(a)(i) or (ii) can be in terms of digital tokens and need not necessarily be in terms of "money". Nor will the fact that the sums payable are in terms of digital tokens affect the deductibility of the borrowing costs so long as the conditions are met for the various types of prescribed borrowing costs.

D. "Upon Money Borrowed"

There does appear to be a major difficulty when it comes to whether the assets borrowed have to be "money" or whether they can be something else. Section 14(1)(a) makes it clear that the deductions can only be made on any sum payable "upon any <u>money</u> borrowed". Unfortunately, if digital tokens indeed do not fall within the definition of "money", there appears to be no easy way of interpreting this requirement that would allow borrowing costs to be deducted in situations where digital tokens rather than money are loaned. The clear language used by the statute does not leave much room for an alternative interpretation.

E. Practical Implications

This analysis of how the current Singapore law on the tax deductibility of borrowing costs in debt finance transactions might treat cases involving digital tokens differently has considerable implications for the ways in which debt finance transactions might be structured. Barring

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[31] *Chng Gim Huat v PP* (n 20) at [36], cited with approval by the Singapore Court of Appeal in *BFC v CIT* (n 13) at [50].

[32] The items are: 1) guarantee fees; 2) bank option fees; 3) discount on debt securities payable on the maturity or early redemption of those securities; 4) premium on debt securities payable on the maturity or early redemption of those securities; 5) prepayment fees or early redemption fees; 6) extension fees; 7) increased costs; 8) interest rate cap premiums; 9) interest rate swap payments; 10) conversion fees or amendment fees; 11) cancellation fees; and 12) front-end fees or back-end fees.

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changes to the law, the following points may be noted. Firstly, it appears to be arguable that the fact that borrowing costs are paid for or payable in digital tokens does not in itself affect the deductibility of these costs.[33] The real issues lie with situations where digital tokens are themselves the assets being borrowed. We would expect these cases to largely involve DPTs, but it is also possible that other tokens such as asset-backed tokens could be borrowed.

Secondly, digital tokens can be freely used in debt finance transactions without affecting the deductibility of the borrowing costs so long as the underlying loans are taken out for revenue purposes. This arises from the fact that section 14(1) appears to be more generous than section 14(1)(a), but does not apply to borrowing costs paid on loans taken out for capital purposes. It should be noted that there are nevertheless risks to this approach, since the inability to successfully establish a "sufficient link" between the loan and a revenue purpose would mean that the loan would be considered a capital loan and therefore not deductible under section 14(1).[34] In such a case, the deduction will have to satisfy the conditions in section 14(1)(a) if it is to be successfully claimed. Thirdly, borrowing costs are only deductible under section 14(1)(a) if the underlying loan on which they are paid is a sum of money. It is arguable that the loan cannot be of digital tokens, whether they be asset-backed tokens or DPTs.

In summary, the tax treatment of debt finance transactions involving digital tokens appears to draw a clear limit on the kinds of structures than can be utilised without having to bear additional tax costs. Where a loan of digital tokens is intended to be taken out for capital purposes or without a clearly definable purpose, there is a real risk that any borrowing costs incurred on such a loan will simply not be deductible. The transaction will have to be restructured such that actual money is loaned, in order to avoid additional tax costs. Apart from this, the traditional structuring considerations as for debt finance transactions not involving digital tokens apply. Thus, a conservative approach might be to avoid transactions which involve digital tokens altogether, except where the loans in question are clearly taken out for a revenue purpose.

F. Conclusion

It is not clear as a matter of principle why such a considerable difference exists in the tax treatment of borrowing costs deductions in debt finance transactions involving digital tokens merely because the loan taken is capital or revenue in nature. Unfortunately, the long string of cases on traditional debt finance transactions not involving digital tokens suggests that such divide exists along the capital and revenue spectrum regardless of whether digital tokens are involved or not. However, the findings of this article are particularly significant because while the traditional challenges in claiming deductions for capital loans made it more difficult for the taxpayer, where digital tokens are the asset being loaned, borrowing costs deductions for capital

[33] This point has not been decisively considered by the courts and this proposition is more of a normative argument than an attempt to describe the current law or even predict how the courts might rule on this point. It is merely stated that there appears to be nothing preventing the courts from adopting such a position at the moment.

[34] *CIT v IA* (n 24) at [79].

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loans may be totally precluded regardless of what else the taxpayer does. This therefore results in a total inability to use this form of structuring in practical terms unless the taxpayer is willing to forgo the borrowing costs deductions.

It is a policy decision for Parliament and/or the authorities to make as to whether this position ought to be amended. As noted, it is difficult to think of a principled basis for why such a considerable difference in the tax treatment exists. Yet, an amendment which addresses this issue in the specific context of debt finance transactions involving digital tokens only, without also addressing the fundamental divide between capital and revenue loans more generally may also not necessarily be the best way forward. It is possible that the Inland Revenue Authority of Singapore ("**IRAS**") may think that it is a good idea to treat traditional debt financing transactions and those involving digital tokens consistently and may well announce an administrative concession allowing for the deduction of borrowing costs in transactions involving digital tokens notwithstanding the strictness of the tax provisions.[35] It is further possible that the Minister for Finance decides to amend the Schedule to the 2008 Regulations and expand the list of items to enable the deductions that would otherwise be prohibited.[36] The 2008 Regulations are subsidiary legislation after all and do not need Parliamentary approval to be amended. Finally, Parliament itself might well decide to amend the legislation to be more generous and relax the rules for claiming borrowing costs. However, borrowing costs deductions rules potentially have large revenue impacts and need to be carefully considered by the authorities.

V. TAXATION OF INVESTMENT RETURNS FROM DEBT FINANCE

From the perspective of investors providing capital in debt capital markets, the main tax consideration would typically have to do with the tax payable on the returns which they receive for their provision of capital. In the vast majority of cases, such returns would be considered income and thus, *prima facie*, taxable. In some situations, the gains or profits from the sale of debt instruments may also be taxable as income.[37] The focus in this area is therefore on the various schemes offering tax concessions or exemptions to investors on their returns. Once again, the highly specific language used in the tax provisions permitting tax concessions or exemptions on returns to debt financing instruments creates considerable difficulties, since one cannot assume that the tax treatment of such transactions involving digital tokens will be the same as traditional transactions.

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[35] However, an administrative concession may be withdrawn at any point of time and thus may well not be a permanent solution.

[36] This would only affect transactions where the borrowing costs are paid in digital tokens. The requirement that the loan itself be in terms of "money" is imposed by section 14(1)(a) itself and cannot be relaxed by amending the 2008 Regulations.

[37] The key question is whether the gains or profits are in the nature of income or capital gains (see Vincent Ooi, "The Taxation of Cryptocurrency Gains" (2021) 75(7) Bulletin for International Taxation 323-333).

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A. Common Tax Incentives Schemes for Debt Finance Investors

Like any other major financial centre, Singapore offers a range of tax incentive schemes which can reduce the tax payable on returns from debt instruments, or even totally exempt such income from taxes. The most popular schemes are: the 1) Offshore Fund Tax Exemption Scheme;[38] 2) Onshore (Singapore Resident Company) Fund Tax Exemption Scheme;[39] and 3) Enhanced Tier Fund Tax Exemption Scheme.[40] There are also other available schemes which cover: the 4) Foreign Accounts of Philanthropic Purpose Trusts;[41] 5) Foreign Trusts;[42] and 6) Income of Trustees of Trust Funds Managed by an Onshore Fund Manager.[43]

This article focuses on these six exemption schemes despite their different qualifying conditions because they all fundamentally work by rendering "specified income" derived from "designated investments" by the fund in question exempt from tax. In fact, the Third Schedule to the 2010 Regulations lay out the list of "designated investments" and "specified income" for the purposes of section 13CA, and all of the other five schemes simply make reference to the Third Schedule to the 2010 Regulations. For the purposes of this article, the focus will be on the asset classes that are listed as "designated investments" since the list is an exhaustive one and income derived from asset classes which are not on the list will not benefit from the various tax exemptions. The term "designated investments" covers a wide scope of investments such as stocks, shares, securities, and derivatives but notably excludes immovable property in Singapore.

B. Applicability of Common Tax Incentive Schemes In Debt Financing Transactions Involving Digital Tokens

While the list of "designated investments" contains no fewer than 24 different asset classes, any reference to digital tokens or crypto-assets is conspicuously absent. As the list is an exhaustive one, an investor in debt financing transactions involving digital tokens must actually be able to fit into one of the asset classes on the list in order to benefit from the tax exemption. It is not sufficient for digital tokens to perform a "functionally similar" role to the items on the list; the tokens must themselves be capable of fitting the descriptions therein. As a matter of practice, the author understands that the IRAS has taken the view that digital tokens are not

[38] SITA, section 13D, Singapore Income Tax (Exemption of Income of Prescribed Persons Arising From Funds Managed by Fund Manager in Singapore) Regulations 2010 (No. S 6) (the "**2010 Regulations**").

[39] SITA, section 13O, Income Tax (Exemption of Income of Approved Companies Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 (No. S 8).

[40] SITA, section 13U, Income Tax (Exemption of Income Arising from Funds Managed in Singapore by Fund Manager) Regulations 2010 (No. S 414).

[41] SITA, section 13L, Income Tax (Exemption of Income of Foreign Account of Philanthropic Purpose Trust) Regulations 2007 (No. S 692).

[42] SITA, section 13F, Income Tax (Exemption of Income of Foreign Trusts) Regulations (Rg 24, 1995 Rev Ed).

[43] SITA, section 13C, Income Tax (Exemption of Income of Trustee of Trust Fund Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010 (No. S 7).

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one of the asset classes recognised as "designated investments".[44] The Singapore Ministry of Finance has thus far not made any attempts to broaden this list to include digital tokens either.

It should be noted that the question of which asset classes to put on the list of "designated investments" is a clear policy decision that the Ministry of Finance will no doubt constantly review. While including digital tokens in the list of "designated investments" may have the effect of enhancing Singapore's attractiveness as a financial technology and crypto-assets hub,[45] there are also reputational risks to the country if the field is not sufficiently well-regulated.[46] In any case, the sheer number of potential different variations of digital tokens means that even if the Ministry of Finance were to consider expanding the list of "designated investments", it is unlikely to recognise digital tokens as an asset class of its own. This would simply be an invitation for tax planning *en masse*, as any asset classes not already on the list could simply be tokenised (by creating asset-based tokens), defeating the purpose of the list in the first place.

However, even if digital tokens are not expressly listed as "designated investments", there is the possibility that specific debt instruments may nevertheless fall under another asset class even if they are tokenised and therefore technically "digital tokens". Some promising asset classes which digital tokens may potentially fall under include: 1) loans granted by prescribed persons to companies incorporated outside Singapore; and 2) loans granted to trustees of trusts constituted outside Singapore.[47]

It is worth highlighting a potential "trap" here that once again arises due to the use of the term "money" in the legislation. Paragraph (q) of the Third Schedule to the 2010 Regulations provides that "structured products" are "designated investments". This may initially appear to be promising, however "structured products" are defined in Regulation 2 of the 2010 Regulations as having the same meaning as in section 13(16) of the SITA, which in turn defines them as "a sum of <u>money</u> paid on terms under which — (a) it may not be repaid in full and the return from which is, partly or wholly, determined by the performance of any embedded derivative instrument; and (b) its repayment may be in money or money's worth… (emphasis added)". For the reasons discussed at length above, it may be difficult to argue that digital tokens are actually money, and thus a financial instrument that looks very much like a

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[44] Although, as noted below, it is certainly possible that some digital tokens may also fall under another asset class that is a "designated investment" class. In other words, an asset will not be a "designated investment" merely because it is a digital token, but the fact that it is a digital token does not in itself preclude the asset from being a "designated investment".

[45] Singapore has been held as a Fintech hub which has overseen acceleration on growth, despite the COVID-19 pandemic: see Oliver Wyman Singapore FinTech Association, "Singapore Fintech Landscape 2020 and Beyond" (2020), (available at https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/dec/singapore-fintech-landscape-2020-and-beyond.pdf) (accessed on 1 September 2022).

[46] See Jo Ann Barefoot, "Digital Technology Risks for Finance: Dangers Embedded in FinTech and Regtech" (June 2020) M-RCBG Associate Working Paper Series, No. 151 (available at https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/AWP_151_final.pdf) (accessed on 1 September 2022), at pp 2-8.

[47] See the 2010 Regulations, Third Schedule, Part A, paragraphs (k) and (v). Do note that there may be other conditions prescribed in the regulations and not all loans will be considered to be "designated investments".

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"structured product" but with the capital sum comprised of digital tokens, would not strictly meet the definition of a "structured product".

On the whole, it would still appear to be possible to structure some debt financing transactions involving digital tokens in order to be able to take advantage of the common tax exemptions, but great care must be taken in carrying out the structuring so that the digital tokens involved can still fall within one or more of the "designated investment" asset classes.

VI. GST Issues

As far as GST is concerned, the tax treatment of debt financing transactions involving digital tokens is likely to be similar to that of traditional debt financing transactions, that is, of limited relevance to a taxpayer. The question is whether the investor will be charged GST on the debt financing instruments. As there is a very broad list of exempt supplies relating to finance[48] that are potentially applicable to debt financing transactions, including those involving digital tokens, it is unlikely that GST will have to be charged or collected on the issuance or transfer of debt financing instruments. In particular, some promising exemptions that may well apply in this context include: the 1) provision of any loan, advance or credit; and 2) the provision or assignment of a derivative that does not lead to any delivery of goods or supply of taxable services.[49]

There is potentially another trap here for the unwary. While the Schedule lists "the issue, allotment, transfer of ownership, drawing, acceptance or endorsement of a debt security" as an exempt supply,[50] "debt security" has a specific meaning in the GSTA which again makes a reference to "money". They are defined as "any interest in or right to be paid money that is, or is to be, owing by any person or any option to acquire any such interest or right…"[51] Thus, an instrument that gives an interest in or right to be paid digital tokens (but not money) may well not fall under the definition of a "debt security", affecting the status of that supply as being an exempt supply. It would not appear to be too difficult to structure around this such that the instrument in question can fall under another one of the exempt supplies, but it is necessary to take care in doing the structuring such that this is covered.

VII. Conclusion

The adoption of digital tokens in debt finance represents a great opportunity for both investors and businesses seeking to raise capital. However, due to the highly specific language used in tax legislation, it simply cannot be assumed that the traditional, established tax rules on debt finance will continue to apply in the same way when digital tokens are used. While it is possible to identify potential tax issues arising from the use of digital tokens in debt finance transactions,

[48] SGSTA, Fourth Schedule, Part I.
[49] SGSTA, Fourth Schedule, Part I, Paragraphs 1(g) and (j).
[50] SGSTA, Fourth Schedule, Part I, Paragraph 1(e).
[51] SGSTA, Fourth Schedule, Part III, Paragraph 1.

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tax law is ultimately a field which relies quite heavily on the judicial interpretation of the specific terms used in tax statutes. This article has sought to illustrate these points through the study of Singapore tax law, which showed that there can be a considerable tax difference depending on whether the loan taken is for capital or revenue purposes, something which might not be immediately apparent from a plain reading of the statute. Nevertheless, it is expected that similar issues are likely to arise in other jurisdictions as well and as DeFi and other debt instruments using digital tokens are still in their relative infancy, the full extent to which these tax differences exist has yet to be fully explored.

These tax differences will shape the way that debt finance transactions are structured. While the areas considered in this article appear to concern either the investors or the businesses raising capital individually, that is merely a matter of the impact of the relevant taxes. It is important not to ignore the incidence. Investors should consider the tax position of the businesses as it may well affect effective rate of return offered to them. Similarly, businesses should consider the tax position of the investors as it would indirectly affect the cost of raising capital. Market conditions will ultimately dictate which of the parties bears most of the tax costs.

On a policy level, these developments may lead us to more closely examine whether there are any principled reasons for the differences in tax treatment that may result from a use of digital tokens in debt finance. It is certainly very harsh to have a tax regime which potentially imposes a blanket ban on deducting borrowing costs incurred on loans of digital tokens which are taken out for capital purposes or without a clearly definable purpose. This position is reinforced by the fact that no such prohibition would apply if the loan was of fiat currency, or the purpose of the loan was revenue in nature. It is arguable that these differences are wholly unintended and have arisen as a result of tax laws failing to keep pace with innovations in finance and developments in technology. As digital tokens become more important in debt finance, we may well expect jurisdictions to start re-examining their tax systems to ensure consistency in the treatment of debt finance transactions, regardless of whether or not digital tokens are used.

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