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KIN16S held >1M in LUNC at drop date.

Initially received 6.+ LUNA 2.0 for airdrop. Since this is the initial airdrop, the cost base is \$nil (in line with ATO treatment).

Any further airdrops may have tax consequences.

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Tokens

How the LUNA 2.0 airdrop will be distributed on May 28

Information, including examples, has been released regarding the LUNA 2.0 airdrop scheduled to happen on May 27, 2022



Liam 'Akiba' Wright

May. 26, 2022 at 5:00 pm UTC



Terraform Labs has released information regarding the LUNA 2.0 airdrop scheduled for May 27, 2022.

UPDATE May 27 08:50 GMT: Airdrop time now pushed to May 28th, 2022 at 06:00:00 GMT

The current LUNA token will be renamed LUNC, while the new LUNA 2.0 token will assume the ticker LUNA. Holders of LUNC (Luna Classic), USTC (UST Classic), and aUST (staked UST) will be airdropped LUNA tokens from the new chain.

LUNA Airdrop

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mainnet will be activated on May 28. When the mainnet goes live, the airdrop will begin. According to a Terraform Labs verified [Medium](#) post, you will be eligible for the airdrop if:

At the Pre-Attack snapshot, hold:

- LUNA (including staking derivatives)
- Less than 500k aUST (UST deposited in Anchor)

And/or at the Post-Attack snapshot, hold:

- LUNA (including staking derivatives)
- UST

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The snapshot timings used in the above criteria are shown below:

Snapshot	Asset Type	Quantity in wallet	Vesting
Pre-attack	LUNA (Including staking derivatives)	< 10k Luna	30% unlocked at genesis; 70% vested over 2 years with 6 month cliff
		< 1M Luna	1 year cliff, 2 year vesting thereafter
		> 1M Luna	1 year cliff, 4 year vesting thereafter
	aUST (UST deposited in Anchor)	Capped at 500k (whale cap)	
Post-attack	LUNA (Including staking derivatives)	N.A.	30% unlocked at genesis; 70% vested over 2 years thereafter with 6 month cliff
	UST		

Source: Medium

When will the airdrop happen?

The genesis block of LUNA 2.0 will occur on May 27, 2022, at which time 30% of the LUNA airdrop will be issued, with the remaining 70% to be issued over two years with a six-month cliff. The cliff means users will start to receive the rest of their airdrop after 6-months at around 3.9% per month.

“At Genesis, 30% of the LUNA airdrop will be immediately available to Pre-Attack users with wallets that had less than 10k LUNA (including staking derivatives) or deposited UST in Anchor, and Post-Attack users with any quantity of LUNA (including staking derivatives), UST, or both.”

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be removed at any point. However, vested LUNA will be staked according to the above schedule. However, it does appear that investors will still be able to claim their rewards at any point.

“Users will earn staking rewards on their vesting LUNA starting from the point at which it is staked, and can claim these rewards at any point.”

Regarding vested LUNA, “if a user would like liquid LUNA as soon as their cliff hits, they’ll need to undelegate their staked, vested LUNA at least 21 days before the first day of their cliff.” However, information in Table 4 of the Medium posts suggests that bridged LUNA will be “distributed at a later date.”

LUNA tokens that will not be included in LUNA 2.0

Any LUNA currently held in the bridge contract will be set aside “as part of the community pool for distribution after the chain launches.”

Therefore, it may be prudent for investors who hold LUNA bridged off of Terra, such as Wormhole or wLUNA, may wish to convert into LUNA tokens before the snapshot.

The [Medium](#) post outlines the following scenarios where the airdrop will not be available.

UST or LUNA bridged off of Terra

- Users with bridged UST or LUNA who would like to be included in the Post-Attack snapshot need to bridge back to Terra before the snapshot is taken.

UST or LUNA on Terra protocols that cannot be easily identified

- All protocols listed on DeFi Llama [here](#) will be covered, in addition to a few others that are known.

UST or LUNA on CW3 multi-sig contracts

- Most UST and LUNA in CW3 multi-sig contracts will be accounted for, but there could be edge cases that may not be included.

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decentralized ledger technology has the potential to make widespread positive change. He predicts the next 10 years will bring in a dawn of a new age of technological innovation.

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Staking rewards and airdrops

How tax applies to crypto rewards and new tokens from staking crypto assets.

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Staking and the role of forgers

Staking involves locking your existing crypto asset tokens to validate transactions on the blockchain and create new blocks. The users who create new blocks in this system are known as forgers.

Proof of stake is a consensus mechanism, where forgers (similar to miners) hold units of a crypto asset to validate transactions and create new blocks. When a transaction is verified on the network as valid there is a consensus.

Feedback

Example: staking existing crypto assets

Anastasia holds 50,000 Coin A tokens, which she stakes to a Coin A pool as a premium staker.

Anastasia receives additional Coin A tokens when her pool participates in consensus. Anastasia also receives a small payment of Coin A tokens from the node leader for supporting their node.

The money value of the additional Coin A tokens that Anastasia receives is included in her ordinary assessable income at the time she receives the tokens.

The cost base of Anastasia's additional Coin A tokens is their market value at the time she receives them.

Staking rewards and income tax treatment

As a forger who creates a new block, you'll usually receive a reward in the form of additional tokens from holding the original tokens. The money value of additional tokens is **ordinary income** at the time you receive the tokens. You need to declare the income in your tax return as [other income \(/Individuals/myTax/2022/In-detail/Other-income/\)](/Individuals/myTax/2022/In-detail/Other-income/).

Other consensus mechanisms that reward existing token holders for their role in maintaining the network have the same tax outcome. This includes rewards you receive through:

- proof of authority and proof of credit mechanisms by validators
- agent nodes and guardian nodes
- premium stakers and other entities performing comparable roles.

You also receive **ordinary income** equal to the money value of the tokens if you receive as a reward for either:

- participating in 'proxy staking'
- voting your tokens in a consensus mechanism.

You also need to declare this income in your tax return as [other income \(/Individuals/myTax/2022/In-detail/Other-income/\)](/Individuals/myTax/2022/In-detail/Other-income/).

When you dispose of crypto assets you earn through staking, you will need to [work out if you make a capital gain or loss \(/Individuals/Investments-and-assets/crypto-asset-investments/how-to-work-out-and-report-cgt-on-crypto/\)](/Individuals/Investments-and-assets/crypto-asset-investments/how-to-work-out-and-report-cgt-on-crypto/).

Airdrops and income tax treatment

Airdrops are a marketing tool that distribute crypto assets through a group of people to build their use and popularity. Some projects 'airdrop' new tokens to existing token holders as a way of increasing the supply of tokens.

The money value of an established token you receive by airdrop is **ordinary income** at the time you receive it. You need to declare this in your tax return as other income (</Individuals/myTax/2022/In-detail/Other-income/>).

Example: airdrop tokens and market value

Merindah has held Coin A tokens since December 2020, entitling her to receive monthly BTT airdrops from February 2021.

The money value of the Coin B tokens that Merindah receives for holding her Coin A tokens is ordinary assessable income.

The cost base of Coin B tokens that Merindah receives by airdrop is their market value at the time she receives them.

Initial allocation airdrops

A crypto project may make an initial airdrop of tokens that is the very first distribution of its tokens. These tokens are the initial allocation, if there has been no trading in the project's tokens prior to the airdrop.

If you receive tokens distributed in an initial airdrop you do not derive ordinary income or make a capital gain at the time you receive them.

Where the project issues these tokens for free (without any payment made for the tokens), they have a cost base of zero (\$0). These tokens don't have a market value at the time of the initial airdrop because they have not previously been traded.

Where these tokens are not free, that is you have made a payment in return for receiving the token, the cost base of the tokens will be amount that you pay to acquire them.

A CGT event (</individuals/capital-gains-tax/cgt-events/>) happens when you dispose of the tokens. If you hold your tokens for 12 months or more, you may be entitled to the CGT discount.

Example: capital gain and CGT discount on initial airdrop token

Cswap launched its own native protocol token, CX through a community airdrop.

Josh is an eligible account holder of the Cswap protocol and received an initial allocation of 800 CX tokens on 16 September 2021.

Josh does not derive ordinary income or make a capital gain as a result of the receipt of the 800 CX.

On 25 May 2023, Josh sold the 800 CX for \$4,000. Because the cost base of the CX tokens was zero, Josh makes a total capital gain of \$4,000 in the 2022–23 income year from the sale of the CX.

Josh is also eligible to reduce his total capital gain using the CGT discount, as he held his CX for more than 12 months.

Example: capital gain on an initial airdrop token that requires payment

TXP launched its own native protocol token, HXP through an initial airdrop.

TXP distributed the new HXP to participants who paid an amount for the new token.

Calista pays \$1 for each token and receives an initial allocation of 1000 HXP tokens.

Calista does not derive ordinary income or make a capital gain as a result of receiving the 1000 HXP.

Calista later sells the 1000 HXP for \$4,000. Because the cost base of the CX was \$1,000, Calista makes a capital gain of \$3,000 from the sale of the HXP.

Authorised by the Australian Government, Canberra.

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