Crypto Guide

A common belief is that cryptocurrency is money and can be used like money without any tax consequences...

The reality is that, despite the name, cryptocurrency is not considered to be money or currency for tax purposes. It's not treated in the same way as fiat currencies such as the GB £, Euro or US $.

Cryptocurrency and other crypto assets are classed as a type of property and treated in a similar way to shares. This means that crypto asset transactions need to be considered for tax.

We've created this guide to help you.

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2. What tax could be due?
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1. What are crypto assets?

Crypto assets, also known as or cryptocurrency, can include exchange tokens such as bitcoin, ethereum as well as stablecoin, NFTs (non-fungible tokens), security tokens and utility tokens.

All crypto assets use some form of Distributed Ledger Technology. They are cryptographically secured digital representations of value or contractual rights that can be transferred, stored and traded electronically.

Different types of token are used for different purposes. The most widely known crypto assets are the exchange tokens such as bitcoin. However, this is a rapidly growing area with continued development of new types of asset, technology and protocols and its own complex financial ecosystem.

2. What tax could be due?

The majority of crypto asset transactions will result in gains (or losses) that fall under capital gains tax. There are also some types of transaction that could result in income tax.

3. What type of crypto transactions fall under capital gains tax?

Capital gains tax results from the disposal of an asset. However, disposal doesn't just mean selling, it's much broader, so you really need to be aware of this. The types of transactions that fall under capital gains include:

- Selling crypto assets for a fiat currency (such as GBP). This also includes selling NFTs that you created.
- Trading crypto for other crypto (including stablecoins)
- Spending crypto to buy goods and services
- Gifting crypto (except to your spouse or civil partner)
- Transfer fees for moving crypto between wallets (if paid in crypto)
- Some DeFi (de-centralised finance) transactions such as lending and staking e.g. adding or removing crypto in a liquidity pool.

4. Is it easy to calculate my crypto capital gains or losses?

Calculating whether you have capital gains or losses on your crypto assets can be complicated. Crypto asset gains are calculated in a similar way to share gains using the share pooling method. Investing in shares or crypto can involve many different types of assets and many individual transactions. Rather than tracking and calculating the gain or loss on each individual crypto coin, they are pooled together.

The cost value is worked through the average cost of the entire pool, subject to some specific rules. Each type of crypto asset will have its own pool. This calculation can be complex to do, particularly for large volumes of transactions, however some crypto exchanges can provide reports with this information.

5. What type of crypto transactions fall under income tax?

Income tax applies if you have earned income. This could be in exchange for providing goods or services or carrying out a particular action. The type of transactions that could result in income tax include:

- Getting paid in crypto either as employment salary or for providing goods or services.
- Staking rewards
- Mining tokens
- Airdrops (if you did something in return)
- Play to earn rewards
- Some DeFi ((de-centralised finance) transactions such as lending and staking e.g. getting rewards from staking, yield farming and lending under certain circumstances.

6. What about crypto trading?

Most crypto-trading consists of buying and selling for personal gain and would still fall within capital gains tax as a private investor rather than being considered as a business.

Larger scale trading done on a full-time basis could be classed as a business depending on factors such as activity, organisation, risk and commerciality. Business trading income would be taxed under income tax or corporation tax depending on the business structure.

This would also apply to activities such as mining crypto which could also potentially be done on a larger scale business basis.

7. Are there any tax-free crypto transactions?

It's not all bad news. Some types of crypto transactions are tax free. These include:

- Buying crypto assets with a fiat currency (such as GBP).
- HODLing crypto. Holding onto your crypto assets. Even if the asset has increased in value, there is no tax until you do something with it.
- Transferring between your own wallets.
- Gifting crypto to your spouse or civil partner.
- Donating crypto to a registered charity
- Gambling, Some types of day trading, such as spread betting, are viewed as gambling which is tax free.

8. Will there always be tax to pay?

For both capital gains and income tax, there may not always be tax due depending on your particular tax circumstances. Income from crypto that totals under £1,000 in the tax year can make use of your small earnings allowance. This means it doesn't have to be included on a tax return. You may also be able to make use of your personal allowance, if it's not fully used by your employment or self-employment. Anything not covered under either of these may need to be declared to HMRC via a tax return.

Capital gains can make use of your annual exempt amount, providing it's not being used by other gains in the same tax year. If you have losses you can register these on your tax return and carry them forwards to use against future capital gains. Where you have gains that are over the annual exempt amount or losses that you want to carry forwards, then a tax return will be necessary.

9. What records do I need to keep for my crypto assets?

You should keep records of all of your crypto assets to help you work out if there is any tax to pay and accurately calculate any gains or losses. These records should include:

- Type of crypto asset
- Date of the transactions
- Whether they were bought or sold
- Number of units involved
- Value of the transaction in GBP (pounds sterling) at the date of the transaction
- Cumulative total of investment units held
- Bank statements
- Relevant wallet addresses
- Other relevant exchange reports

There may not be tax to pay when you buy crypto assets but you still need to make sure everything is documented at that point. You can't necessarily rely on a particular platform keeping sufficient records or even still being around when you come to sell, so it's best to keep additional records. This could just be by saving a copy of relevant reports or information.

10. What if I lost my crypto assets or they were stolen?

There are many ways to lose crypto assets from losing your private key to bad investments that become worthless and scams. Sadly, lost or stolen crypto is not considered to be a disposal for capital gains tax so in most circumstances you can't claim a capital loss.

There is the potential to make a negligible value claim, where you still own the asset, but it has become worthless. This can still apply if you still own the asset but don't have access to it for example losing your private key.

11. Will HMRC know about my crypto?

HMRC is able to obtain information from crypto exchanges including historical transaction data. They have a data sharing program with all UK exchanges. HMRC will also begin to exchange data with European organisations as well.

HMRC have recently announced a new disclosure service for unpaid tax on crypto assets. This gives crypto investors an opportunity to declare and clear any past tax liabilities, with lower penalties. Unpaid tax that HMRC discover for themselves is usually subject to higher interest and penalties than voluntary disclosures.

And finally.
The rapidly changing nature this field means that any guidance needs continually reviewing and updating. Crypto assets and transactions are constantly evolving. HMRC's tax guidance and clarification often lags behind developments, so the tax status of new types of transaction or protocol are not always clear cut.

In general, you can apply the basic principles to check what type of tax could be due. You need to think about the nature of the transaction and whether it is income or capital. If you are earning crypto, then it is likely to be income tax. If you are disposing of crypto then it's likely to be capital gains tax.

If you are in any doubt, we are happy to discuss any of your transactions with you, help you to determine what could be taxable, calculate income or gains and support you if you need to submit a tax return or make a disclosure to HMRC.