

Cryptoassets and tax

Bitcoin, Dogecoin, Ethereum and the multitude of other crypto coins are constantly in the news and becoming more mainstream, but they remain highly volatile and often little understood by the public.

HMRC defines cryptoassets as “cryptographically secured digital representations of value or contractual rights” that have the potential to be transferred, stored and traded electronically.

HMRC do not consider crypto coins to be money, but they identify 3 types of cryptoassets : Exchange tokens, Utility tokens and Security tokens. **But if you do decide to dabble in crypto what taxes might apply?**

Are you trading as a business or investing as an individual?

A level of complexity and a higher number of transactions would be required for the buying and selling of crypto coins to be considered a business. Factors would include:

- Number of transactions
- Commerciality
- Your time investment
- Risk and organisation
- Whether you hold coins for a long time or frequently buy/sell within minutes

Crypto mining as a business

Using a computer to mine cryptocurrency may count as a business and profits would be trading income, which would be subject to income tax and national insurance. Costs could be claimed to arrive at the taxable profits. Mining that is not at a “trading” level will still need to be declared as other income.

Crypto staking/Lending

This is a growing area, potentially income tax/national insurance would be payable on income, if payment is received in crypto assets may need to be converted at the time.

Holding Crypto as an investment

For most, the level of complexity and frequency of buying/selling crypto is likely to amount to holding it as an investment and Capital Gains Tax would apply. This means gains over the annual exemption (£12,300 for 21/22) need reporting on a self-assessment return.

Disposals of crypto will be chargeable to CGT, this doesn't just mean converting crypto to sterling, it can include:

- Selling crypto for any normal currency
- Using crypto to pay for services or goods (e.g. you buy a tesla with bitcoin, you only paid £1,000 for the original coin, you've made a large gain chargeable to CGT)
- Gifting crypto to friends/relatives (as with other gifts you may be tax on the market value)
- Changing one coin to another (Bitcoin to Litecoin etc)
- Potentially moving coins between wallets may be a disposal
- Selling coins to a connected person may mean a market value basis must apply to gains

Tax payable will depend on any other capital gains, related costs and if it falls into higher or basic rate for the CGT. Pool rules can apply so accurate records of all transactions must be kept. There are also 30 day “bed and breakfast” rules to stop individuals generating losses/gains to minimise tax.

Clearly for those regularly buying, selling and moving crypto there can be thousands of “micro” transactions and proper records must be kept. Apps or spreadsheets are available to track disposal and purchases.

<https://www.gov.uk/guidance/check-if-you-need-to-pay-tax-when-you-sell-cryptoassets>

<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual>