



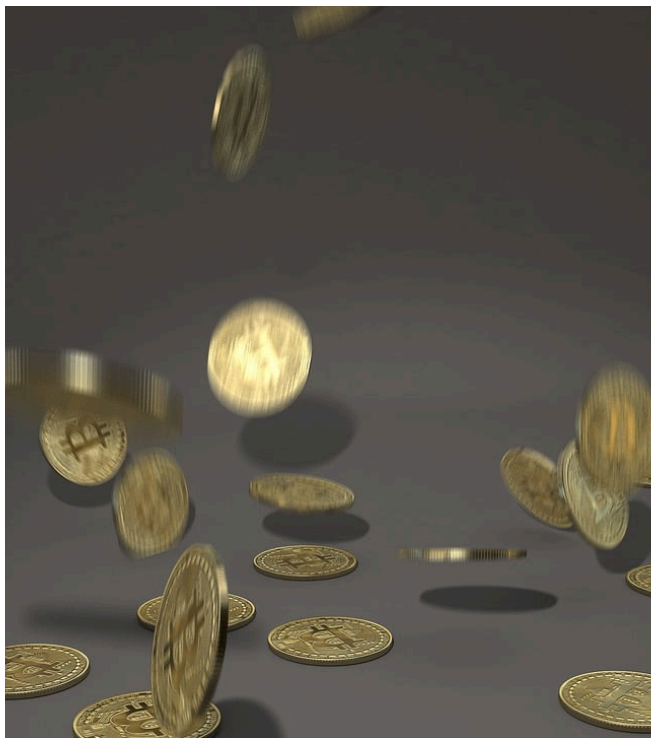
Taxing Cryptoassets

Keeping you informed on cryptoasset
taxation policies.



Cryptocurrency – what you need to know





The term cryptoassets includes cryptocurrencies, utility tokens, security tokens, platform tokens, and the list keeps growing. Cryptoassets can be taxed in a variety of ways, depending on the purpose for which you hold them, such as investment or trading.

Understanding cryptoassets

Trading in cryptocurrencies and digital assets is becoming an increasingly mainstream activity for many tech-savvy investors and traders. It's easier than ever to trade in cryptocurrencies, such as Bitcoin, and to build up a digital wallet of your investments.

If you're trading in these digital assets, how does this affect your personal tax position and your self-assessment bill? Cases are on the rise as cryptoassets are coming under increased scrutiny by HM Revenue and Customs, so understanding your tax position is important.

Digital assets and the differences with traditional cash assets

The emergence of cryptocurrencies and digital assets is beginning to have a significant impact on the world of finance and investment. But

what are cryptocurrencies? And how are they different from traditional cash assets?

HMRC's Cryptoassets Manual defines cryptoassets as follows:

"Cryptoassets (also referred to as 'tokens' or 'cryptocurrency') are cryptographically secured digital representations of value or contractual rights that can be:

- transferred
- stored
- traded electronically

While all cryptoassets use some form of Distributed Ledger Technology (DLT) not all applications of DLT involve cryptoassets."

Cryptocurrencies and digital assets are seen as property, not as cash. Money, in the traditional sense, is the cold hard cash in your hand, whereas crypto is an intangible asset, and is represented on a blockchain distributed ledger.

The tax treatment of cryptoassets

HM Revenue & Customs (HMRC) doesn't see cryptoassets as a currency. As we have mentioned, your digital assets are seen as property, not cash, and will be taxed accordingly.

If you change your sterling into Bitcoin, and then into euros, and then back into sterling, there will be different transactions to account for and different exchange rates to factor in. Once it's converted into sterling, that's when taxable events do start to arise.

For example, if you are mining Bitcoin, or any other minable cryptoasset for that matter, on an organised basis, that may be seen as income if it's a process that generates income for you.

Crypto mirrors currency in some ways and follows the patterns of more traditional financial transactions. If you trade in cryptocurrencies, and this mirrors those financial transactions, you'll end up being taxed

in exactly the same way – even though this is an intangible asset.

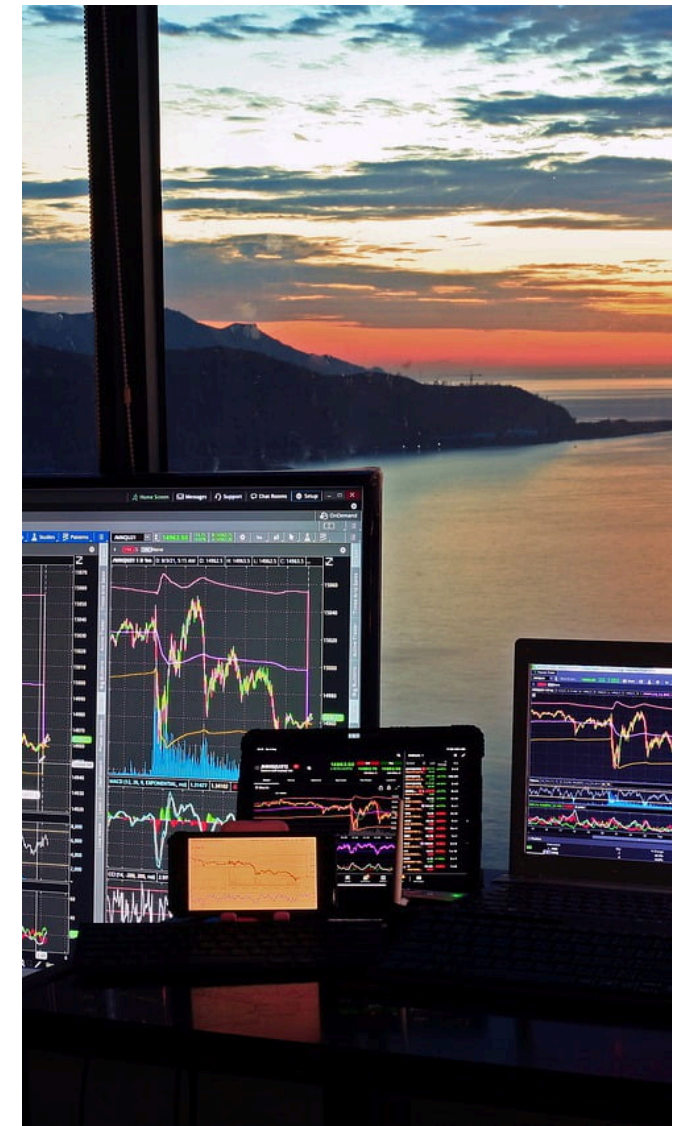
If you are not trading, but holding cryptocurrencies as investments, any gains are generally seen as investment gains and are taxed as capital gains.

Ultimately, the way these digital transactions are accounted for is all down to self-assessment. You're required to tell HMRC what you've been trading in, in the same way, you would when talking about sterling transactions.

HMRC's crackdown on undeclared financial interests

Being open and transparent about your crypto transactions is part of your self-assessment compliance process – and it's important to make sure everything is declared.

There are no names on the blockchain. So it's your responsibility to tell HMRC what you're doing when it comes to dealing in crypto. The No Safe Havens initiative made it clear back in



2019 that HMRC is clamping down on individuals that have chosen to not give a full declaration of their interests.

HMRC also has a system called [Connect](#) which is very sophisticated and can pick up on transactions from a wide range of sources. It's one of the largest and most diverse collections of data and intelligence in the world and can track all manner of different transactions. It can even pick up information from the immigration authorities and the land registry.

HMRC have also recently used their powers to request information from the Coinbase exchange regarding individuals resident in the UK who hold, buy and sell crypto using this exchange. It is unlikely to be the only exchange targeted, and we expect to see HMRC ramp up their use of information powers going forward.

HMRC will know when you are in the UK when you are carrying out transactions and what those transactions may be. So, it's highly advisable to be totally transparent about your digital assets and any trading in

cryptocurrencies.

The growing popularity of cryptoassets and NFTs

Using crypto as a means of payment is still relatively rare. It's unlikely that you would buy your house with Bitcoin, yet (although this has been done). But cryptocurrencies are becoming more mainstream and that means that financial services and the accounting industry (and governments) need to catch up fast.



Crypto is an intangible asset, so nothing tangible actually exists for you to own. It sits in the same category as things like patents, intellectual property or copyright. [Non Fungible Tokens \(NFTs\)](#) are another kind of digital asset that's growing in popularity. An NFT is just digital data. There is no physical thing that you own, whether it's a digital artwork, a photo or a music album. But you do have access to that NFT – and, as such, it's an interesting way for individuals to invest in cryptoassets and build up a digital portfolio. The copyright holder of the 'Charlie bit my finger' viral video has recently sold the rights to that video for a significant amount as a 'non-fungible token'.

More recently, Sir Tim Berners-Lee, who worked on the original source code that led to the creation of the internet, as we know it today, is seeking to capitalise on his creation by auctioning off this code in the form of an NFT. It will be interesting to see how much this NFT will eventually sell for.

Cryptoassets may be intangible, but you still need to account for these transactions in the



Accounting for your crypto transactions

usual way. As such, it's vital to work closely with your advisers and to record every transaction.

Any profit that you make from your cryptoassets is likely to be seen as a capital gain, although this is not guaranteed, and can depend on whether you are seen as trading or not. HMRC generally (but not always) sees these gains as an investment, so the outcome will mostly be seen as a capital gain and taxed via the Capital Gains Tax (CGT) system, but as noted above, this is not always the case.

There is also the matter of losses with something as volatile as cryptocurrencies, and losing wallets etc. Of particular note, the founder of a Canadian crypto exchange died and took all knowledge of the private wallets with him – over £105 million (at the time, in 2019) may never be accessed again.

Morbid though it may be, there's also the question of what happens when you die. Who has access to your crypto keys and the passwords? Cryptoassets can be part of someone's estate and could be bequeathed to other people in a will, but how do you then access them if you don't have the private key? Where are the cryptoassets located for tax

purposes? Will UK inheritance tax be due on these?

Investing, Trading & NFT's

Key Considerations and
planning points.



Taxing of cryptoassets

Cryptoassets can be taxed in a variety of ways and are coming under increasing scrutiny by HMRC.

The way in which they are taxed will depend on a variety of factors including:

The type of transaction - e.g. mining, staking, airdrops, exchange tokens, or forks.

What do you hold the asset for - e.g. trading or investing.

Investing in cryptoassets

May be subject to:

- Capital Gains Tax
- Inheritance Tax

Trading in cryptoassets

May be subject to:

- Income Tax
- National Insurance
- Corporation Tax

Non-Fungible Tokens (NFTs)

Unique cryptographic tokens stored on decentralised blockchain that represent ownership of goods (digital or real-life).

NFTs are likely to be treated in a similar way to other cryptoassets and subject to the same taxes.

Planning

Investing - Tax Considerations

Disposals

HMRC define this as:

- Selling cryptoassets for money
- Exchanging one asset for another
- Using assets to pay for goods or services
- Giving an asset to another person.
- Capital Gains Tax
- Inheritance Tax

Losses

Could occur when:

- An asset you've invested in turns out to be worthless
- Misplacing your private key
- Misplacing the computer or hard drive which stores the asset (if not held on an exchange)
- The crypto is stolen/hacked



Points to consider

- Gifting crypto will be subject to IHT but you may be able to utilise the CGT uplift on death, factor this into your will planning.
- Losses can be set against gains from the same year or carried forward but be aware of the restrictions E.G. disposal to “connected persons”.



- If crypto is lost you may be able to make a Negligible Value Claim, but be aware this will be for the value at the date of purchase which is likely to be much lower than the current value.



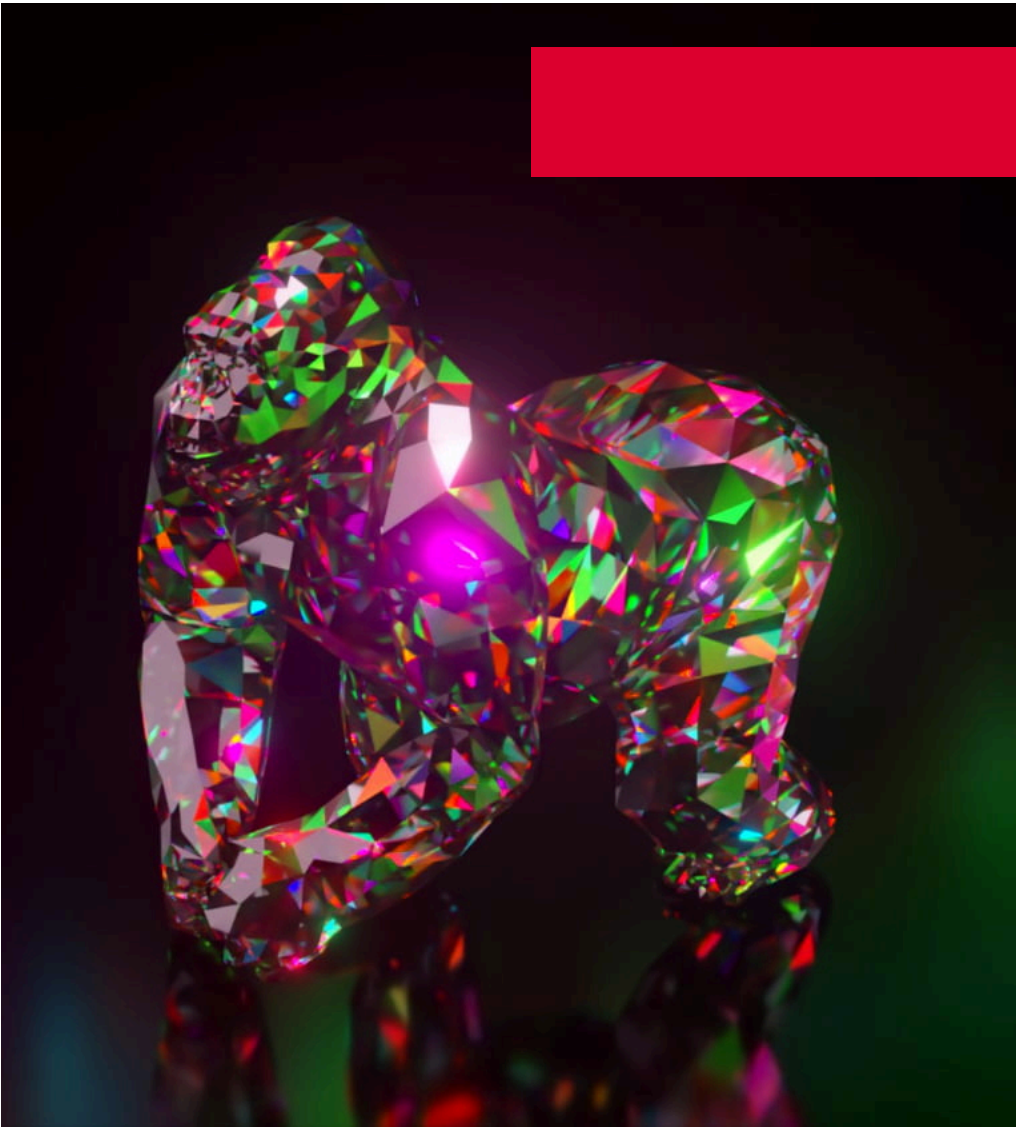
Trading as a business

HMRC will determine whether your activity is classed as a business by looking at:

- Profit motive
- The number of transactions
- The nature of the asset
- Existence of similar trading transactions or interests
- Changes to the asset
- The way the sale was carried out
- The source of finance
- Interval of time between purchase and sale
- Method of acquisition

Additional Planning:

It is likely to become more common for the activity to be regarded as a business. Understand where your activity falls so that you don't end up with unexpected tax bills.



Non-fungible tokens

- Defined as unique cryptographic tokens stored on decentralised blockchain that are capable of representing ownership of goods (digital or real-life).
- There is limited guidance from HMRC but they are likely to be treated in a similar way to other cryptoassets and subject to the same taxes.
- Other considerations are VAT on the creation of NFTs and on trading these.

Planning Points:

- NFTs don't necessarily grant the owner copyright unless specifically written into the terms, always check this.
- NFTs can be passed down as inheritance and so should be factored into your will planning.

Working with an experienced tax adviser



Cryptoassets are emerging as a very innovative and interesting way for people to begin investing in their own digital portfolios. But with digital assets, you really do need to be careful. Not only are these investments very volatile, and easily influenceable by a few individuals, there is nothing physical to back them up, and getting the tax treatment right is vital in this day and age.

It's possible for financial interests to be missed when submitting your tax return, for incomplete records to be kept and for unintentional tax implications to occur if you don't take the right advice. Working closely with your tax adviser and keeping them in the loop regarding your investments is highly recommended.

If you're starting to explore the world of crypto, bear these key considerations in mind:

1. The actual mechanics of how blockchain, cryptocurrencies, and digital assets work is complex at the technology level.
2. However, the ownership and trading of assets like Bitcoin can actually be straightforward.
3. You can buy, trade, and sell these cryptocurrencies, NFTs, and digital assets and build up a portfolio in your digital wallet.



Watch our
crypto webinar
series



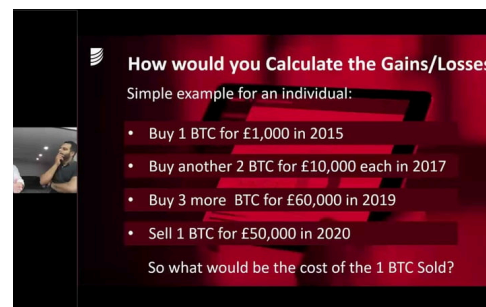
Watch our three-part series

Join our experts, Nicola Goldsmith and Anoop Rehal, for a fascinating three-part series in which they explore the issues that dominate this debate today.



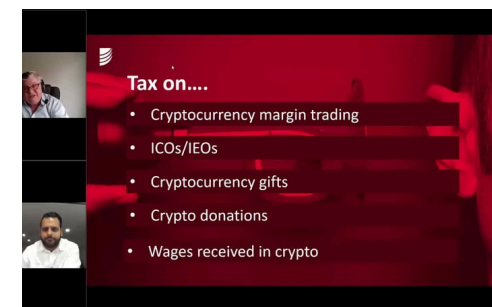
Digital assets Part 1 - The mechanics and meaning

At the start of 2021 the digital asset market topped \$2 trillion in market capitalisation. The growth of crypto and other digital assets provides businesses and individuals with a raft of new opportunities. As the taxation and regulatory authorities play catch up and evolve their guidance it is vital that you take steps to secure your position.



Digital assets: Part 2 - corporate and personal tax considerations

Following on from our previous webinar on the mechanics of digital assets, in part 2 our presenters delve into the evolving taxation landscape surrounding digital assets. We'll talk through HM Revenue and Custom's current position and provide tips on the action you need to take to stay compliant.



Digital assets: Part 3 - Further tax considerations and regulation

In this third installment, we discuss the evolving governance and regulation considerations and the interplay with the tax environment.

Frequently Asked Questions



FAQs

Do I need to declare my Cryptocurrency to HMRC?

Yes. HMRC are tightening their control on this and have begun to produce 'nudge' letters to ensure crypto transactions are being reported correctly.

Understanding your tax obligations can be complicated. Addressing your planning as early as possible puts you in a stronger position and ensures that your income and gains are reported correctly.

Are gains from Cryptocurrency taxable?

Yes. HMRC consider cryptocurrencies an asset rather than a currency. Gains made at disposal may be subject to Capital Gains Tax.

What activity is defined as disposal?

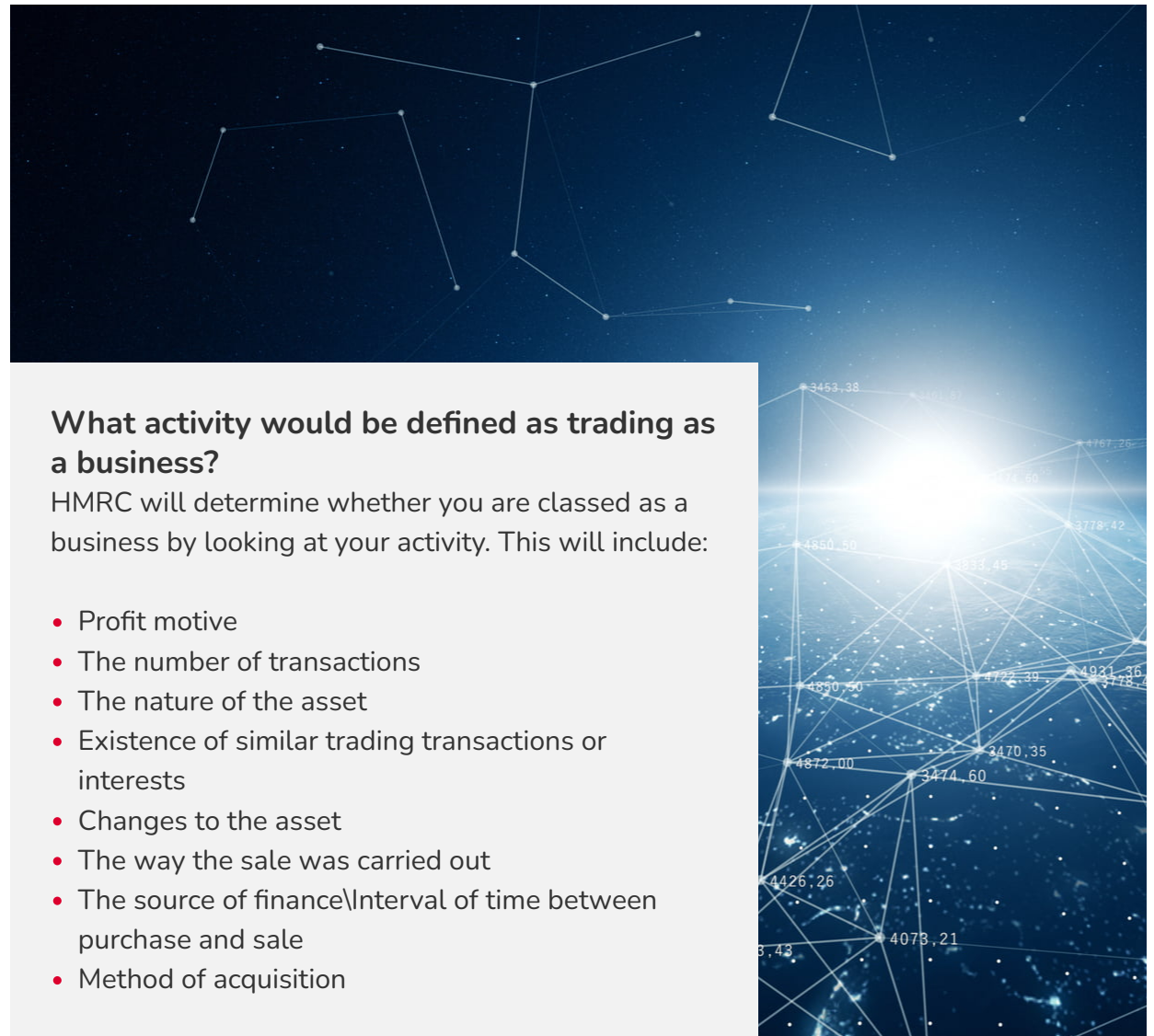
HMRC define this as:

- Selling cryptoassets for money
- Exchanging one asset for another
- Using assets to pay for goods or services
- Gifting an asset to another person

What activity would be defined as trading as a business?

HMRC will determine whether you are classed as a business by looking at your activity. This will include:

- Profit motive
- The number of transactions
- The nature of the asset
- Existence of similar trading transactions or interests
- Changes to the asset
- The way the sale was carried out
- The source of finance\Interval of time between purchase and sale
- Method of acquisition



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