Koinly

Crypto Tax UK: Ultimate Guide

Crypto Tax Made Easy

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Do you have to pay tax on cryptocurrency in the UK? Wondering how UK crypto tax works and how HMRC views Bitcoin and other cryptocurrencies?

We've covered everything you need to know about crypto tax in the UK in our ultimate UK crypto tax guide for 2022. We'll explain crypto capital gains tax, crypto income tax, which UK crypto exchanges report to HMRC, how to avoid paying tax on cryptocurrency, and how to use a crypto tax calculator to work out your taxes.

Is crypto taxable in the UK?

Do you pay tax on crypto in the UK? **Yes.** You pay tax on cryptocurrency in the UK, so you need to know how to report it on your **Self Assessment.**

How is crypto taxed in the UK?

There is no specific Bitcoin tax or cryptocurrency tax in the UK. Instead, your crypto will either be subject to **Capital Gains Tax** or **Income Tax**.

The crypto tax you'll pay depends on the specific transactions you're making with your crypto. If you're seen to be making an income, you'll pay Income Tax. If you're seen to be making a capital gain, you'll pay Capital Gains Tax.
We'll look at both.

Crypto Capital Gains Tax UK

Because HMRC see crypto as a capital asset, when you **dispose of a capital asset - you'll pay Capital Gains Tax**. Disposals of crypto include:

- **Selling crypto** for GBP or another fiat currency.
- **Trading crypto** for crypto, including stablecoins.
- **Spending crypto** on goods and services.
- **Gifting crypto** - unless it's to your spouse or civil partner.

So anytime you **sell, trade, spend or gift crypto in the UK - you'll pay Capital Gains Tax** as a result.

Don't worry - you won't pay tax on the entire proceeds when you make a disposal. **You'll only pay tax on crypto gains**, so whenever you've made a profit.

In addition to this, HMRC has finally released some guidance on DeFi transactions - in particular lending and staking - but it hasn't really clarified too much. The guidance now states that DeFi transactions may be subject to Income Tax or Capital Gains Tax depending on the "nature of the transaction" and whether that transaction has the nature of capital or the nature of income. In essence, a capital transaction happens when you dispose of your crypto, regardless of whether you have the right to claim that crypto back or not, this could include:

- Adding/removing your crypto in a liquidity pool - if the DeFi protocol can benefit from your liquidity.

- Staking your crypto through a DeFi protocol - though the return from staking may be charged under Income Tax.

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Do you pay tax on all crypto gains?

Actually, no. HMRC are pretty generous when it comes to capital gains and give every UK taxpayer a [Capital Gains Tax Allowance](#) **of £12,300** in the 2020-21 tax year**.** We'll explain this in more depth later, but this means you'll only pay Capital Gains Tax on any capital gains over your £12,300 allowance.

Let's look at how much Capital Gains Tax you'll pay on your crypto.

Crypto Capital Gains Tax rates UK

Unlike many other countries, the UK doesn't have a short-term and long-term Capital Gains Tax rate. All capital gains are taxed under the same rates. The amount of Capital Gains Tax you'll pay depends on how much you earn.

Here are the 2020-21 rates

Tax rate	Taxable income
10%	Basic Rate Income Band (up to £50,270)
20%	Higher Rate Income Band (up to £150,000)
20%	Additional Rate Income Band (more than £150,000)

So as you can see, you'll pay either 10% or 20% tax on any crypto gains, depending on what band you fall under.

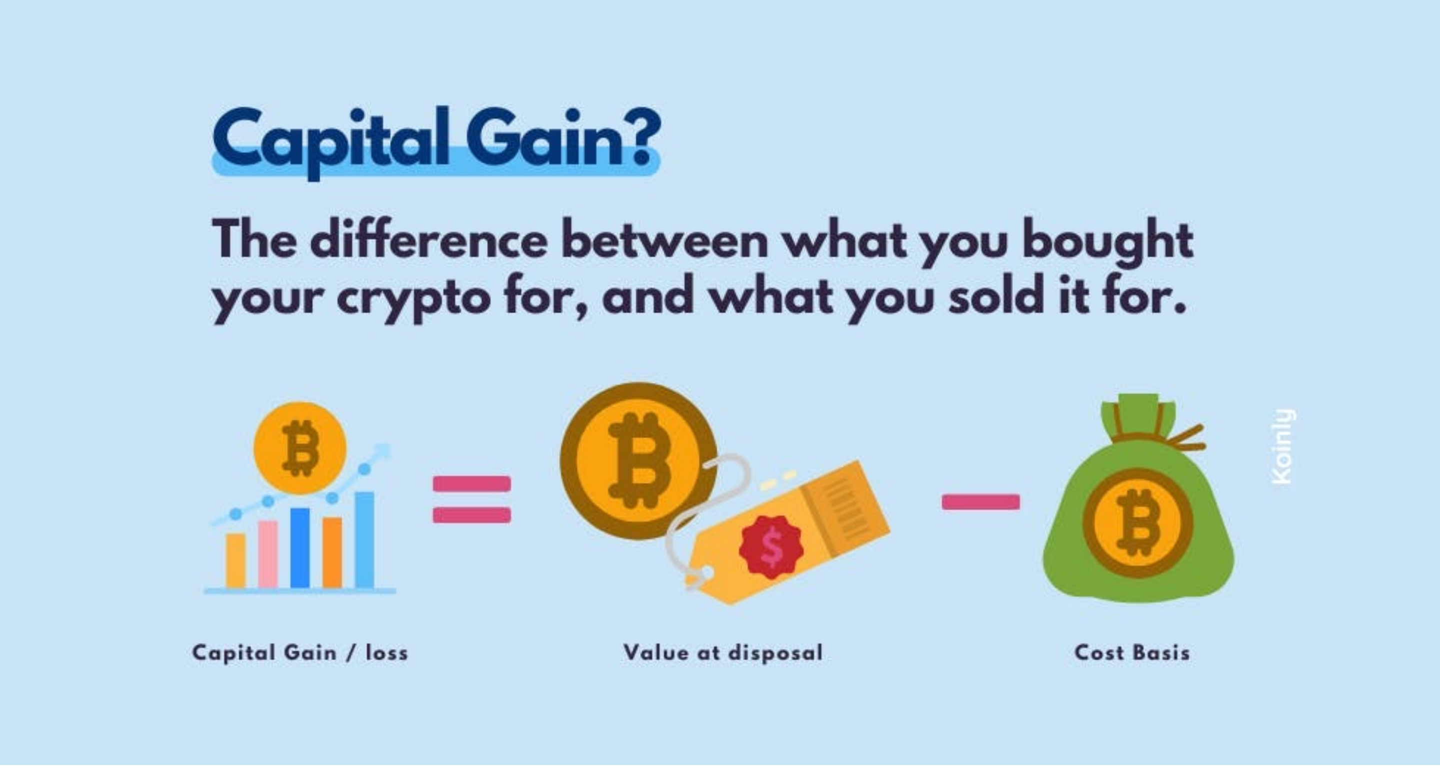
- If you earned less than £50,270 in 2021 - you'll pay 10% on crypto gains.
- If you earned more than £50,279 in 2021 - you'll pay 20% on crypto gains.

How to calculate CGT on cryptocurrency UK

To calculate tax on crypto gains, you need to start by figuring out your cost basis.

Your **cost basis** is how much it cost you to buy your crypto, plus any transaction fees. If you acquired your crypto by other means - like an airdrop or fork - you'll take the fair market value of the crypto on the day you received in GBP it as your cost basis instead.

Once you know your cost basis, it's easy to figure out your capital gain or loss. **A capital gain or loss is the difference in value from when you acquired the asset to when you disposed of it** by selling it, swapping it, spending it or gifting it. So subtract your cost basis from the price you sold the asset for. If you spent, swapped or gifted your asset, subtract your cost basis from the fair market value of the asset on the day you disposed of it.



If you have a profit then you have a capital gain and you'll pay Capital Gains Tax on that gain. If you have a loss, you have a capital loss and you won't pay Capital Gains Tax on your loss - but you do want to keep track of these as they can reduce your tax bill. We'll explain this in a minute - but first let's look at an example of calculating tax on a crypto capital gain.

Example

Oscar bought 1 BTC in May 2020. The price of BTC on the day he bought it was £7,000 and he paid an extra £100 in transaction fees. This is his cost basis.

In May 2021, Oscar sells his BTC. The price of BTC on the day he sells is £38,000. He needs to subtract his cost basis from his sale price to figure out his capital gain.

£7,000 + £100 = £7,100. This is the cost basis of the BTC.

£38,000 - £7,100 = £30,900. This is his capital gain and he'll pay Capital Gains Tax on this amount. To figure out how much tax he'll pay, he needs to look at his regular income to figure out which Capital Gains Tax band he falls into.

Remember to deduct your capital gains allowance of £12,300!

Oscar earned £70,000 in income in the 2021 financial year. This puts him in the 20% Capital Gains Tax band. He'll pay 20% tax on his crypto gains of £30,900 less £12,300

£30,900 - £12,300 = £18,600

£18,600 x 20% = £3,720

Crypto tax breaks

UK crypto investors can **pay less tax on crypto** by making the most of tax breaks.

1. **£12,570 Personal Income Tax Allowance:** Your first £12,570 of income in the UK is tax free for the 2021/2022 tax year. This allowance was £12,500 for the 2020/2021 tax year. This matters for your crypto because you subtract this amount when calculating what Income Tax band you're in. Please note you do not get a Personal Income Tax Allowance if you earn more than £125,140 a year.

2. **Trading and Property Allowance:** £1,000 of income from trading or property is tax free thanks to the Trading and Property Allowance. If you've got income from both, you can get £2,000 tax free.

3. **Capital Gains Tax Free Allowance:** We know we've harped on about this already - but it's a big deal. The UK has a Capital Gains Tax Free Allowance of £12,300. So you'll only pay Capital Gains Tax after you've already gone over this allowance. Provided you make no more than £12,300 from capital gains in a single financial year, you'll pay no Capital Gains Tax. In even better news, you can also use capital losses to stay within this allowance - let's look at how.

Crypto capital losses

You won't pay Capital Gains Tax on any capital losses - but you do want to keep **good records** of these and **register losses with HMRC** as you can **offset capital losses against capital gains**, as well as **carry forward registered losses** to offset future gains.

In the UK, there is **no limit** on how large of a capital loss you can offset against your capital gains. What this means is you can use as many capital losses as you want to reduce your capital gains back down to the Capital Gains Tax free allowance amount of £12,300, so you'll pay no Capital Gains Tax.

When it comes to **carrying forward capital losses** to future financial years - HMRC has some very specific rules. You can **carry forward registered capital losses indefinitely** until they're fully utilised.

You **register capital losses when you submit your self assessment tax return**. So even if you're not required to submit a self assessment due to a low capital gains, if you've got capital losses you want to carry forward, you should still do this to make sure they're registered with HMRC.

In general, it's always advisable to **register capital losses in the year you made them**, although HMRC gives taxpayers a **four year time limit to register capital losses**. After the four year period, you'll no longer be able to register your losses and utilise them to offset future gains.

If you don't need to complete a self assessment tax return and want to swerve accountant fees - you can also **notify HMRC in writing** to register your capital losses too.

Example

Jerry made a £20,000 gain selling Bitcoin this year, but last year he made a loss of £10,000. He has not used any capital allowance this year.

Gain: £20,000

Less: Loss B/F: (£10,000) and Personal Allowance £12,300

This leaves Jerry with zero capital gains tax to pay, as he remembered to bring forward his losses from the previous year to offset the gains this year! He still has £2,300 in his capital gains personal allowance pot.

Tax free crypto UK

Wondering when Bitcoin is tax free in the UK? What about other cryptocurrencies? Fortunately, you won't always pay tax on your crypto in the UK.

You won't pay tax on your crypto in the UK when you're:

- **Buying crypto** with GBP.
- **HODLing** crypto.
- **Transferring crypto** between your own wallets.
- **Donating crypto** to charity.
- **Gifting crypto to your spouse.** (Use this to your advantage if your partner has not used their capital gains allowance this year!)

Tax on lost or stolen crypto in the UK

HMRC has clear guidance on **lost and stolen crypto.**

Lost crypto is not considered a disposal for Capital Gains Tax purposes as the asset still exists, even if the private key is lost. So if you've lost your private key - you can't claim this as a capital loss. However, if you can prove there is no chance of you recovering your private key and gaining access to your asset again - you can make a negligible value claim. If this claim is successful, you would later be able to claim your lost crypto as a capital loss.

Similarly, for stolen crypto - **HMRC doesn't view theft as a disposal** so you can't claim stolen crypto as a capital loss. There are a couple of very specific exceptions to this rule. For example, if you've bought crypto off an exchange but don't actually receive your asset, this could be considered a scam and you could make a negligible value claim and later claim a capital loss.

Income Tax on crypto UK

Now we've covered everything you need to know about crypto capital gains, let's look at **crypto income** and Income Tax.

There are cases where crypto is treated as income and thus attracts Income Tax. Cryptocurrency transactions that are classified as income are taxed at your regular **Income Tax band**. In some instances, you'll also need to make National Insurance contributions on income from crypto too.

In the UK, **crypto is taxed as Income** when it comes from:

- **Getting paid** in crypto - known as 'money's worth' and is subject to National Insurance too.
- **Staking rewards**
- **Mining tokens**
- **Airdrops** - in most instances.

HMRC **has finally released guidance on DeFi transactions** - in particular lending and staking. But it doesn't really clarify anything. The guidance now states that DeFi transactions may be subject to **Income Tax or Capital Gains Tax** depending on the **"nature of the transaction"** and whether that transaction has the nature of capital or the nature of income. If your DeFi activities have the 'nature of income', they'll be subject to Income Tax.

In general, **Income Tax will only apply to 'returns'** from activities, so **rewards from staking, yield farming, lending** and more could be **considered income** and subject to Income Tax. HMRC say it's **likely to be considered income** if:

- **The return to be received has been agreed** - as opposed to speculative and unknown.
- **If the return is paid by the borrower/DeFi platform.**
- **If the return is paid periodically** throughout the period of lending/staking.

So if you're earning new coins or tokens, potentially at an agreed APY through a DeFi protocol - it's likely this would be seen as income.

Therefore this could include:

- Earning new crypto tokens through **yield farming** on lending protocol like AAVE, Compound.
- Earning new **liquidity pool** tokens, governance or reward tokens.
- Lending your crypto to platforms like NEXO to **earn interest.**
- Earn crypto **dividends** on platforms like CoinRabbit.

HMRC haven't yet released guidance on **engage-to-earn or play-to-earn platforms** which appeared in the DeFi space recently. However, as earning crypto through staking and mining is considered income, we can infer that earning tokens and coins through these platforms would also likely be considered income by HMRC. Examples of potential crypto income include:

- **Referral rewards** like Binance Referral.
- **Learn to earn** campaigns, like Coinbase Learning Center or CoinMarketCap Learning Center.
- **Watch to earn** platforms like Odysee.
- **Browse to earn** platforms like Permission.io browser extension, Brave.
- **Play to earn** games like Axie Infinity.
- **Shop to earn** through browser extensions like Lolli.
- **Share public address** to earn on platforms like Moon Faucet.

How much tax will you pay on crypto income?

To figure out how much tax you'll pay on crypto income, you need to first know the crypto Income Tax rates. These are the same **Income Tax Bands** for your regular income. For 2021 - 2022, the Income Tax Bands in the UK are as follows:

Tax rate	Taxable income	Band
0%	Up to £12,570	Personal allowance
20%	£12,571 - £50,270	Basic rate
40%	£50,271 - £150,000	Higher rate
45%	£150,000+	Additional rate

Start by figuring out which Income Tax Band you're in. Then add your additional income from crypto to your regular income and check you're still in the same Income Tax Band. If you are, this is the amount of tax you'll pay on crypto income. If your additional income from crypto pushes you into a higher Income Tax Band, this is amount of tax you'll pay on your crypto.

It’s important to note you **don’t pay the same flat rate of Income Tax** on all your earnings. For all English and Welsh taxpayers (*bar those earning over £125,140*) you’ll have **£12,570 tax free for the 2021/2022 tax year**. For the 2020/2021 tax year, this allowance was £12,500. Then you’ll pay 20% tax on your next £37,699 of income and 40% on the next £99,729 of income and 45% in tax on any income over this amount. So you’ll pay anywhere between 0% to 45% in tax for your crypto.

Scottish taxpayers have slightly different Income Tax Bands. **See here.**

Example

Aida earns £4,000 in additional income from a variety of crypto investments. She needs to figure out how much Income Tax she'll pay on this.

She earns £40,000 in income in the 2021 financial year. Remember £12,570 of this is tax free.

This puts her in the basic rate tax allowance of 20%. Aida will pay 20% tax on her crypto income of £4,000, so a total of £800.

Can HMRC track crypto?

Yes - HMRC can track cryptocurrency.

- HMRC has a data sharing program with all UK exchanges.
- HMRC has crypto transaction data from as far back as 2014.
- HMRC has the KYC information you provided when signing up for any UK exchange or wallet.

HMRC confirmed a couple of years ago that they were working with large crypto exchanges to share customer information provided from **Know Your Customer (KYC)** identification records. HMRC is using this information to send nudge letters to crypto investors reminding them to report their crypto and pay their taxes.

Which crypto exchanges report to HMRC?

But what about your specific UK crypto exchange? Does **Binance** report to HMRC? What about **Coinbase** and HMRC?

HMRC stated back in 2019 that they requested customer data crypto from exchanges that do business in the UK including **Coinbase, eToro and CEX.**

These are the only crypto exchanges they've named so far. But before you breathe a sigh of relief, just because HMRC haven't named the crypto exchange you use doesn't mean they haven't contacted them. HMRC is cracking down on crypto - so it is safe to assume **HMRC will have contacted all the major crypto exchanges** doing business in the UK, such as **Binance**, **Kraken**, **KuCoin**, **Gemini**, **CoinJar**, **Crypto.com**, **Bittrex** and **Gate.io**.

You might recall that in 2020, **Coinbase handed over data on UK customers** who transacted more than £5,000 worth of cryptocurrency between 2017 and 2019.

HMRC tracks and groups crypto assets into four main categories:

1. Exchange tokens (Such as BNB, Binance's native coin used on their blockchain)
2. Utility Tokens (ETH, used on ERC-20)
3. Security Tokens (BCAP, the very first security token)
4. Stablecoins (USDT, USDC)

Centralised and decentralised exchanges

The way HMRC is able to deal with individuals' cryptocurrency taxes depends on what type of exchange they were using.

Centralised exchanges, such as **Binance** and **Kucoin** use a system referred to as **KYC** - Know Your Customer, which requires an Identify check to find out where you live and who you are, so your trades can be verified to you, similar to stock market trading.

Due to this KYC Identity check, **your information will be passed along to HMRC**, making them aware of any losses or gains you may have made in the past year.

On the other hand, **decentralised exchanges** such as **Pancake Swap** or **Uniswap** do not require any KYC, and are completely decentralized, often referred to as **DeFi**, or Decentralised Finance as there is no centralised body. Users engaging with DeFi through private wallets, where only they have access to the keys, are much harder to track down for HMRC and are required to personally make sure they are filing their taxes properly.

Remember: HMRC will come looking if suddenly a large deposit of fiat is made into your bank account, or a large amount of cryptocurrency, whether it be bitcoin, altcoins, or stablecoins, into an exchange wallet owned by you.

Update January 2022:

Coinbase are contacting customers with more than £3,000 in crypto assets to let them know they're sharing account information with HMRC. The email reads:

"We're writing to let you know about a notice HM Revenue and Customs (HMRC) issued to Coinbase under Paragraph 1, Schedule 23 to the Finance Act 2011. This notice requires us to provide information on your Coinbase account to HMRC. The notice requires the disclosure of customers with a UK address who received more than £3,000 worth of crypto assets from Coinbase UK, Ltd., from April 6, 2020 - December 31, 2020. This includes both purchases or receipts of crypto to your Coinbase account."

Do you pay tax when you buy crypto in the UK?

Yes and no - it depends what you're buying crypto with. Let's break it down.

Buying crypto with GBP TAX FREE

You're not taxed when you buy crypto with fiat currency - like GBP - in the UK.

But, it's really important you keep records of your crypto transactions so you can keep a detailed account of your cost basis. This makes sure you can accurately calculate your crypto gains and losses later on.

Buying and HODLing crypto

TAX FREE

Waiting for the moon? Great plan and great news for your taxes. You'll pay no tax on crypto you HODL.

Again, do make sure to keep records of how much it cost you to acquire your crypto so you can accurately calculate your capital gains and losses later on.

For those long-term HODLers, it may be worth using a **platform that tracks and stores trading information** for long periods of time, as exchanges often only keep information for **3 to 6 months**. This information can then easily be imported into Koinly to quickly find out how big your tax liability is.

Buying crypto with crypto

CAPITAL GAINS TAX

Crypto trading in the UK is taxed. So if you're trading Bitcoin for Ether or any other cryptocurrency - you'll pay Capital Gains Tax. HMRC view this as too separate transactions. Trading your asset is a disposal - just like selling or spending it. They're not interested that you're using it to buy another asset, just that you're disposing of one. So it is the asset you dispose of that you'll pay Capital Gains Tax on, if you've made a gain.

To calculate your capital gain, you'd use the cost base of the crypto you disposed of and subtract it from the fair market value for that asset on the day you traded it for another crypto.

Buying crypto with stablecoins

CAPITAL GAINS TAX

Stablecoins are cryptocurrencies that are **pegged** to a **reserve currency**, often a fiat currency. For example, the cryptocurrency USDT is tethered to the US dollar. This allows for reduced price volatility

Buying crypto with stablecoins is viewed as **trading crypto for crypto**, so any profits are subject to **Capital Gains Tax**.

Of course, you may not actually pay any tax on these transactions as stablecoins are often pegged to a fiat currency and therefore the price remains relatively stable, so you'll have no capital gain or loss when you trade stablecoins for another cryptocurrency.

Despite this, you'll still need to keep record of these transactions for HMRC.

Do you pay tax when you sell cryptocurrency in the UK?

Yes - you'll pay tax whenever you sell cryptocurrency in the UK. The amount you pay will vary depending on your income.

Selling crypto for GBP

CAPITAL GAINS TAX

Selling crypto for fiat currency like GBP is a **disposal** and subject to **Capital Gains Tax**.

You'll pay either 10% or 20% on the profits from your sale, depending on how much you earn in regular income.

Example

Archie buys 1 ETH in July 2021. The price of ETH the day he buys it is £1,500. This is his cost basis.

He sells 1 ETH in November 2021 for £3,500. He needs to figure out his capital gain by subtracting his cost basis from his sale price.

£3,500 - £1,500 = £2,000. This is his capital gain.

Archie earns £40,000 a year. This puts him in the Basic Income Tax Band, so he'd pay 10% tax on his capital gains.

However, Archie has no other capital gains this year, so he is within the Capital Gains Tax Free allowance of £12,300. He'll pay no tax on his capital gain.

Selling crypto for crypto

CAPITAL GAINS TAX

Selling your crypto for another crypto is a disposal - so it's subject to Capital Gains Tax.

To calculate your capital gain or loss, subtract the cost basis of the asset you disposed of from the fair market value of the asset on the day you traded it.

Do you pay tax when transferring crypto?

No! You shouldn't pay tax on your crypto when you're transferring it between the wallets or exchange you use. This said - things are rarely this simple when it comes to UK crypto tax and transactions like transfer fees or adding and removing liquidity are a little more confusing from a tax perspective.

Moving crypto between wallets

TAX FREE

Transferring crypto between your **own crypto wallets** or **exchanges** is tax free. It isn't viewed as a disposal by HMRC so you won't pay Capital Gains Tax on these transactions.

Think of moving crypto between wallets like moving fiat currency between two bank accounts that you own.

Having said all this, it's still really important you keep good records of these transfers because when it comes to transfer fees, things get a little more complicated.

Transfer fees

POTENTIAL CAPITAL GAINS TAX

When you transfer your crypto - your wallet provider or crypto exchange will often **charge you a transfer fee** to do so.

If you pay this **transfer fee in fiat currency** - like pounds - this is **tax free**.

However, in most instances you won't be paying this fee in fiat currency, you'll be **paying it in cryptocurrency** and **spending crypto is a taxable event**. It's seen as a **disposal** of an asset and you'll need to pay **Capital Gains Tax** on any profit.

HMRC has pretty **specific guidance** on what is an allowable cost in crypto. These are costs you can add to your cost basis and **transfer fees are not included** in this list. So we can safely assume transfer fees cannot be added to your cost basis and they would be viewed as disposals in some instances.

Example

You bought 1 ETH. The price of 1 ETH when you bought it is £3,338. You decide you want to move your ETH from your Binance wallet to your MetaMask wallet. Binance charge you a flat transfer fee of 0.005 ETH.

You're paying in ETH - so you're disposing of ETH. So you need to calculate your cost basis and the fair market value of your crypto at the point of disposal. To keep it simple, let's say the price of ETH hasn't changed since you bought it as you moved it straight out your Binance wallet.

0.005 ETH = £16.70 This is your disposal. You don't have a capital gain or loss, but HMRC may wish to see records of disposals during tax compliance checks, so you should always keep a record of these disposals.

Koinly makes this easy with its "treat transfer fees as disposals" setting.

Adding or removing liquidity

CAPITAL GAINS TAX

Deep into DeFi? Most DeFi protocols use liquidity pools. If you're investing in these, at a glance you might not think of them as a taxable event. They're more akin to transferring your crypto from one place to another because you're not actually disposing of the asset.

HMRC however disagrees. They say if you receive a liquidity pool token in exchange for your crypto - it's a disposal. You can add up your cost basis based on tokens you've sent to the pool and then subtract that amount from the fair market value of the tokens at the point of disposal. Your liquidity pool tokens then inherit this as the cost basis for when you want to remove them from the pool.

How are airdrops and forks taxed in the UK?

HMRC has clear guidance on how both airdrops and forks are taxed in the UK. It's good news for forks, but bad news for airdrops. You'll pay no tax on soft or hard forks in the UK. But you'll pay both Income Tax and Capital Gains Tax on airdrops. Let's break it down.

Soft and hard forks

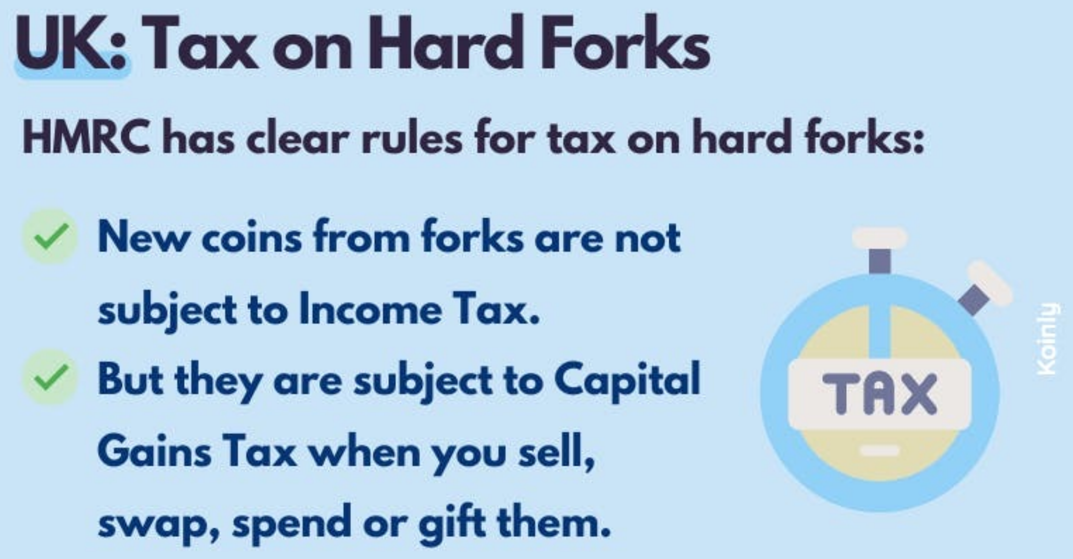
TAX FREE

HMRC has clear guidance on how they tax forks.

For soft forks, you'll receive no new assets - you can't pay any tax.

For hard forks, where you receive a new coin as a result of a fork - you still won't pay any Income Tax on receipt of these coins. However, your cost basis from any coins received from a hard fork is derived from your existing tokens from the previous blockchain - not the fair market value of the coin on the day you received it.

This matters because when you later spend, sell, swap or gift coins you received from a hard fork - they will still be subject to Capital Gains Tax at this point, just like any other crypto.



Receiving an airdrop

INCOME TAX

In most instances HMRC say you'll pay Income Tax on airdrops.

HMRC consider airdrops income whenever you've done something to earn them. This could include actions as simple as sharing a social media post or being rewarded due to your previous trades on a given blockchain. So in most instances, your airdrops are going to be considered income and subject to Income Tax.

However, airdrops are not considered income if you receive them without providing some kind of service or action in return.

You can calculate how much income you have by identifying the fair market value of the tokens on the day you received them in GBP.

Example

You receive 200 1INCH tokens from an airdrop. On the day you receive them, the fair market value per token is £3.50. Your tokens are subject to Income Tax, so you need to calculate their total worth.

£3.50 x 200 = £700. You've made additional income of £700 which you need to pay tax on at your normal Income Tax rate.

You earn £45,000 a year. Your additional income of £700 doesn't push you into a higher tax band, so you'll pay 20% tax on £700, or a total of £140 in tax.

Selling or swapping coins from an airdrop

CAPITAL GAINS TAX

The bad news keeps on coming. Not only will you pay **Income Tax** when you receive an airdrop, but you'll pay **Capital Gains Tax** when you **later sell, swap, spend** or **gift** coins or tokens you received from an airdrop.

Your cost basis for airdrops is the fair market value on the day you received them in GBP.

Example

You sell your 200 airdropped 1INCH tokens a couple of days after. The fair market value per token is £4, so you make £800. You already know your cost basis is £700.

£800 - £700 = £100. You've made a capital gain of £100.

Your income is £45,000. This puts you in the basic tax band, so you'll pay 10% in Capital Gains Tax, so a total of £10.

Crypto gifts and donations tax

Gifting crypto in the UK is taxed. It's seen as a kind of disposal and therefore subject to Capital Gains Tax.

However, you can gift crypto to your spouse or civil partner tax free and you can donate crypto to a registered charity tax free. Let's look at each different transaction.

Gifting crypto to a friend

CAPITAL GAINS TAX

If you give cryptocurrency as a gift to someone other than your spouse or civil partner, you will have to figure out the market value (in pound sterling) of the crypto on the date that it was given away as a gift. This will be considered as sales proceeds for Capital Gains Tax purposes.

Importantly, if income tax has already been charged on the value of the tokens that are gifted, section 37 Taxation of the Capital Gains Tax Act 1992 will apply. This basically means that the "sales proceeds" will be reduced by the amount that has already been subject to income tax, and then be subjected to CGT.

Example

Janie is a UK resident who received crypto worth £500 as a gift from her mother. She sold it in May 2018 for £700. The pooled value of her crypto was £500 and her capital gain was £200. Janie's taxable income is £160,000 and she falls in the category of additional rate tax payer. As a result her total CGT on the disposal of the crypto would be 20% of £200 or £40.

Gifting crypto to your spouse or civil partner

TAX FREE

You can gift crypto to your spouse or civil partner tax free in the UK. There is no limit on how much you can gift.

This might not seem like a big deal, but it is. This legal tax loophole can let you take advantage of each individual Capital Gains Tax allowance in your household, as well as potentially a lower Income Tax band - all reducing your overall Capital Gains Tax bill.

Example

Mark buys 2 BTC for £10,000 each. He sells 1 BTC himself for £25,000, making a capital gain of £15,000. He subtracts his Capital Gains Tax allowance of £12,300 from his capital gain and is left with £2,700. This is the amount he'll pay tax on.

Mark earns £160,000 a year, which puts him in the 20% Capital Gains Tax band. So he'll pay 20% tax on £2,700, or a total of £540.
Mark has used up his Capital Gains Tax allowance and he'd still like to sell his other BTC. He gifts 1 BTC to his wife Hannah. He pays no tax to do this. Hannah receives the 1 BTC and sells it for £25,000. She inherits the cost basis of £10,000, so she's also made a capital gain of £15,000.
Hannah hasn't used her Capital Gains Tax allowance yet, so she also subtracts her Capital Gains Tax allowance of £12,3000, leaving £2,700.
Hannah earns £45,000 a year, which puts her in the 10% Capital Gains Tax Band. She'll pay 10% tax on £2,700, so a total of £270.

Overall, Mark has reduced their Capital Gains Tax bill from a worse case scenario of 20% tax on a net capital gain of £17,700 (a whopping £3540) to a total Capital Gains Tax bill of £810 between him and his wife, saving £2,730 in tax!

Donating crypto to a registered charity

TAX FREE

Donating crypto to a registered charity is tax free in the UK.
If an individual donates crypto to charity, they are entitled to Income tax relief on the donated amount. They can also get an exemption from Capital Gains Tax although there are two exceptions:
In case the individual sells the crypto assets to the charity at a cost which is more than the acquisition cost, they will have to pay CGT on the difference between the selling price (instead of market price) and the acquisition cost.
In case they make a tainted donation — this refers to a situation where an individual makes arrangements with a charity to get some form of kickback/financial advantage.

Crypto mining tax UK

Mining of **cryptocurrency** in the UK can either be considered as a **hobby** or as a **full-fledged business**. This will depend on several factors such as:

- degree of activity
- organisation
- risk
- commerciality

Hobby miners will pay Income Tax on mined coins, as well as Capital Gains Tax when they later dispose of those mined coins. Meanwhile, for business miners, mining income will be added to trading profits and be subject to Income Tax.

Mining crypto as a hobby

INCOME TAX AND CAPITAL GAINS TAX

If your mining activity is classified as a **hobby**, then any income from mining has to be declared separately under the heading of "miscellaneous income" on your tax return.

The income in this case will be the fair market value of the crypto at the time you receive it in GBP.

Appropriate expenses can be deducted from this income before adding it to the taxable income, which should be found here.

Also keep in mind that when you dispose of this crypto, that will be subject to Capital Gains Tax.

Mining as a business

INCOME TAX

If mining is classified as a business based on the criteria mentioned above, then the mining income will be added to trading profits and be subject to Income Tax. Similarly, fees or rewards received in exchange of any mining/staking activity will also be added to taxable income. Appropriate expenses would be deductible, of course.

While disposing of such cryptocurrency, any gain in value from the time of acquisition will be added to the trading profits. You will also have to pay National Insurance Contribution for this transaction.

Crypto day trading tax UK

HMRC doesn't have specific guidance on crypto trading like margin trading, crypto futures and other CFDs. However, there is guidance on general day trading tax in the UK. How you're taxed depends on whether you're:

- Speculative - like gambling. No tax applied.
- Self-employed - same rules as normal business activity. Business Tax applied.
- Private investor - not doing this full time. Capital Gains Tax on profits from closed positions, excluding spread betting.

The vast majority of crypto investors will be considered private investors. It all depends on the scale at which you're doing it, but if you're working a regular job alongside crypto investing - chances are you'll be considered a private investor. Let's look at how each different trading product is taxed.

Margin trading and other CFDs

CAPITAL GAINS TAX

If you're seen to be trading as an private investor - you'll pay Capital Gains Tax on profits from margin trades and other CFDs. So when you open a position, you won't pay tax. It's only when you close your position that you'll realise a capital gain or loss and pay Capital Gains Tax on any profits.

In the instance of liquidation - when your collateral is sold - this is a disposal from a tax perspective and therefore should be reported to HMRC.

Derivatives, futures and spread betting

TAX FREE

Spread betting in the UK is controversial to say the least. It's the reason thousands of crypto exchanges have been banned from operating in the UK as they won't remove derivative products like Bitcoin futures or agree to be regulated by the FCA.

Spread betting in the UK is considered gambling - like speculation - which means it isn't subject to Capital Gains Tax. For private investors in the UK, this means you won't pay Capital Gains Tax on spread bets. This is however, a bit of a legal grey area. The FCA has banned crypto derivatives products without written consent from the FCA. So you should speak to a crypto tax advisor for more bespoke advice on these investments.

DeFi crypto taxes UK

DeFi is a fairly new concept, but **HMRC have now released proposed guidance** about it as of February 2022. You might think it's good news but it doesn't really clarify too much as it all comes down to how your specific DeFi protocol works.

It all comes down to the '**nature of the transaction**' and whether it has the **nature of capital or the nature of revenue**. The former would be subject to **Capital Gains Tax,** while the latter would be subject to **Income tax**. Helpful, right?

To try and simplify this a bit more, a lot of your DeFi trades are going to be seen as disposals now. This includes **adding/removing liquidity, staking crypto** and **in some instances the rewards you receive** from DeFi protocols - if you receive that reward in one large sum (like if you traded a liquidity pool token that had increased in value).

Meanwhile, returns may be seen as income in some instances. HMRC say this is more likely if:

- **The return to be received has been agreed** - as opposed to speculative and unknown.
- **If the return is paid by the borrower/DeFi platform.**
- **If the return is paid periodically** throughout the period of lending/staking.

So if you're **earning new tokens or coins on a periodic basis** through your DeFi activities - this is more likely to be seen as income and subject to **Income Tax.**

The tax you'll pay on DeFi transactions depends on whether you're seen to be 'earning' crypto or 'disposing' of crypto. Anytime you're seen to be 'earning' crypto - you'll pay Income Tax. Anytime you're seen to be disposing of crypto by swapping it, selling it or spending it - you'll pay Capital Gains Tax.

Based on the current guidance from HMRC, we can infer DeFi taxes would likely break down into the following:

- **Lending/loaning crypto through DeFi protocols or P2P:** Capital Gains Tax.
- **Interest payments from lending crypto:** Income or Capital Gains Tax depending on how it's paid.
- **Borrowing from DeFi protocols:** Capital Gains Tax when loan is paid back.
- **Paying interest in DeFi protocols:** An allowable expense.
- **Selling or swapping NFTs:** Capital Gains Tax.
- **Buying NFTs:** Capital Gains Tax if you pay in crypto.
- **Staking rewards from DeFi protocols:** Income Tax/Capital Gains Tax depending on how rewards are paid.
- **Yield farming rewards from DeFi protocols:** Income Tax/Capital Gains Tax depending on how rewards are paid.
- **Earning liquidity pool tokens from DeFi protocols:** Income Tax/Capital Gains Tax depending on how rewards are paid.
- **Adding liquidity to liquidity pools:** Capital Gains Tax.
- **Removing liquidity from liquidity pools:** Capital Gains Tax if you're exchanging a liquidity pool token to do so.
- **Earning through play/engage to earn DeFi protocols:** Likely Income Tax.
- **Profits from DeFi margin trading and options protocols:** Capital Gains Tax.

Earning from DeFi protocols

INCOME TAX

Anytime you're seen to be 'earning' from DeFi - whether that's new coins or tokens - it's likely that HMRC will view this as additional income and you'll pay Income Tax based on the fair market value of the asset in GBP on the day you received it.

Selling or trading tokens on DeFi protocols.

CAPITAL GAINS TAX

Anytime you sell or trade a coin or token on a DeFi protocol, this is likely to be viewed as a disposal by HMRC, making it subject to Capital Gains Tax. You'll pay tax on any profits as a result of a disposal.

Do you pay tax when spending crypto?

Thinking of splurging on some bath bombs at lush with your Bitcoin? You'll need to pay Capital Gains Tax to do so.

Spending crypto on goods or services

CAPITAL GAINS TAX

Spending your crypto is subject to Capital Gains Tax because you're disposing of your asset.

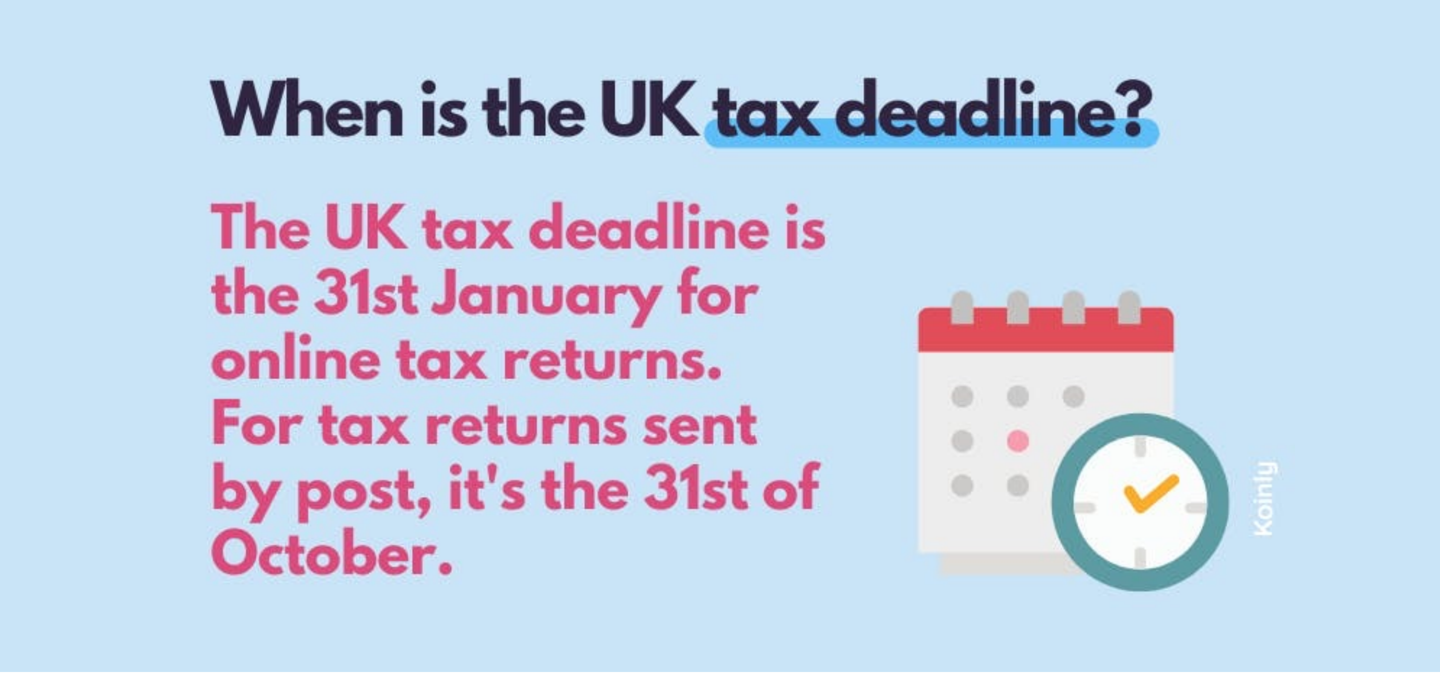
You'll need to calculate any capital gain or loss by subtracting your cost basis from the fair market value of your crypto on the day you spent it.

When do you need to report your crypto taxes to HMRC?

The UK financial year runs from the **6th of April to the 5th of April** the next year.

So the financial year you'll be reporting on in 2022 is from the 6th of April 2020 to the 5th of April 2021. You need to report your taxes for this financial year by the 31st of January 2022.

- You'll declare all your crypto taxes in your Self Assessment Tax Return. HMRC have now extended the Self Assessment Tax deadline to the 28th of February 2022 in light of the Covid-19 pandemic.
- However, interest is still payable starting February 1st 2022, meaning you should still aim to file your taxes by 31st January 2022.



Update for January 2022

HMRC have stated due to the Covid-19 pandemic they are waiving late filing and late penalties for January 2022 for one month, to give you extra time to complete your tax return and pay any due taxes. You will not receive a late filing fee provided you file online by the 28th of February 2022. Interest will be charged from the 1st of of February 2022 on any outstanding liabilities. You will not be charged a 5% late payment penalty if you pay your tax or make a Time to Pay arrangement by the 1st of April 2022.

What kind of records might HMRC ask for?

As far as **crypto record keeping** is concerned, HMRC correctly states that many exchanges do not keep detailed information about crypto transactions and the onus of maintaining these transactions accurately rests with the taxpayer. These details include:

- the type of crypto asset
- date of the transaction
- whether the crypto assets were bought or sold
- the number of units involved
- value of the transaction in pound sterling
- cumulative total of the investment units held
- bank statements and wallet addresses, as these might be needed for an enquiry or review

You should ensure you download reports regularly from your exchanges as they can lose your data or just delete it permanently after a certain period of data. Again, using tax software like Koinly can help you maintain such a ledger.

How to calculate your crypto taxes

Calculating your crypto taxes so you can report them to HMRC - especially if you trade at volume - is time consuming. You can do it all manually, or you can use a crypto tax calculator like Koinly to save you hours.

If you want to calculate your crypto taxes manually, follow these steps:

1. Identify all your taxable crypto transactions for the entire financial year you're reporting on.
2. Identify which transactions are subject to Income Tax and which transactions are subject to Capital Gains Tax.
3. Identify the cost base for each transaction using the Share Pooling Cost Basis Method.
4. Calculate your subsequent capital gains and losses, income and expenses.
5. Subtract your net capital loss from your net capital gain.

If your net capital gain is less than the £12,300 Capital Gains Tax Allowance, you'll only need to report your crypto taxes to HMRC if:

- the total amount you sold the assets for was more than 4 times your allowance
- you're registered for Self Assessment

If your net capital gain is more than your Capital Gains Tax Allowance, you'll need to report this to HMRC. It's a lot of work, but you can save hours with Koinly.

UK cost basis method

The UK's HMRC has very specific rules for crypto cost basis methods, known as **share pooling**. This is to stop crypto investors from manipulating the ACB cost basis method by purchasing and selling assets at a loss in a short period of time to create an unrealistic view of gains and losses.

In the UK, there are **three possible cost basis methods** you can use and you need to work through them in order of which applies to your assets:

1. **Same-Day Rule:** If you buy and sell coins on the same day, you need to use the cost basis on this day to calculate your gains/losses. If you're selling more than you bought on that day, move onto the next rule.

2. **Bed and Breakfasting Rule:** If you sell and repurchase the same coins/tokens within 30 days, you'll use the cost basis of coins/tokens you bought within this month to calculate your gains/losses. If you're selling more than you bought within this month, move onto the final rule.

3. **Section 104 Rule:** If the above two rules don't apply to any of your crypto transactions, you need to use this cost basis method when calculating your crypto taxes. This works like the ACB method in that you calculate an average cost basis for a pool of assets by adding up the total amount paid for all assets and dividing it by the total amount of coins/tokens held.

Check out our article on **calculating tax with share pooling** for examples on how this works. These rules exist to prevent crypto investors from tax loss harvesting.

How to report crypto taxes to HMRC

You file your crypto taxes as part of your Self Assessment Tax Return. You can see our complete guide on reporting crypto to HMRC, but in summary:

Report crypto capital gains and losses on: SA100 and Capital Gains Summary SA108.

Report crypto income on: Box 17 of your Self Assessment Tax Return (SA100).

You can do all of this online through the Government Gateway service or you can file your self assessment tax return with paper forms by post. Please note the **deadline for postal Self Assessment Tax Returns is the 31st of October 2021**.

How to use a crypto tax app like Koinly

Don't get stuck in the busywork. Don't get it wrong. Don't rely on your accountant to know where to look. Use Koinly to generate your HMRC crypto tax reports. Here's how easy it is:

1. Sign up for a FREE Koinly account.
It only takes a minute!

2. Select your base country and currency.
In this instance, the United Kingdom and Great British Pounds.

3. Select your accounting method.
Koinly supports the UK Share Pooling Cost Basis Method. This is the only cost basis method allowed in the UK, so you shouldn't change it.

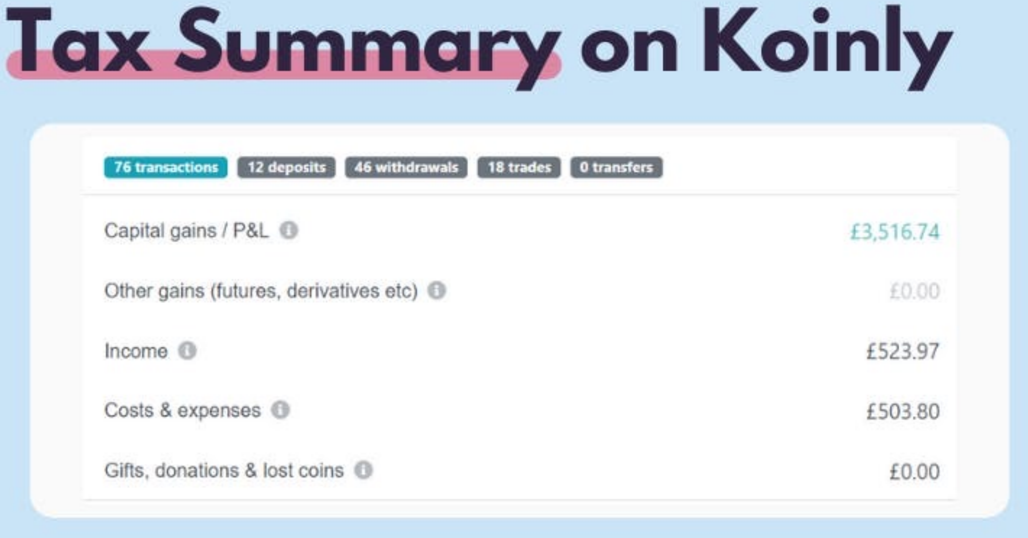
4. Connect Koinly to your wallets, exchanges or blockchains.
Koinly integrates with more than 300 crypto exchanges, wallets and blockchains. (See all) If you can't find yours, let us know - we're always adding more.

5. Let Koinly crunch the numbers. Make a coffee.

Koinly will calculate your cost basis for each crypto asset like ETH, ADA and Bitcoin and taxes them accordingly. Koinly will calculate each capital gain or loss from your disposals, as well as your crypto income and expenses.

6. Ta-da! Your data is collected and your full tax report is generated!

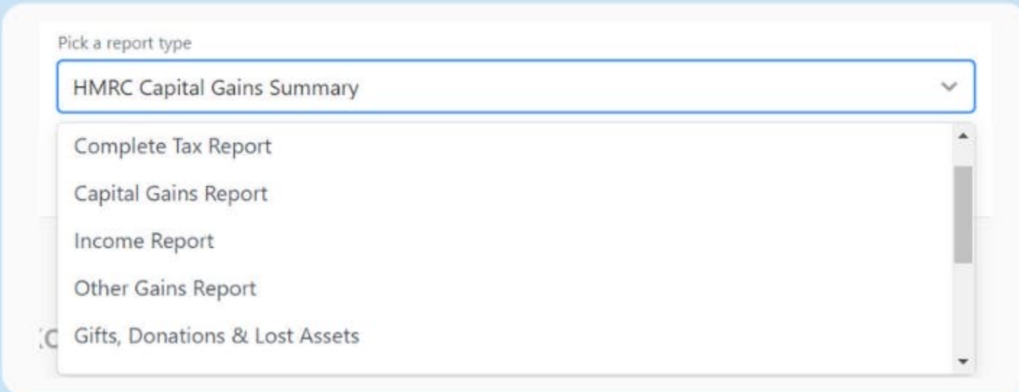
Head to the tax reports page in Koinly and check out your tax summary. This includes your net capital gains, other gains, income, costs, expenses and any gifts, donations or lost crypto.



7. To download your crypto tax report, upgrade to a paid plan from £40 per year.

Download what you need, when you need it. For UK investors, you can download your HMRC Capital Gains Summary in seconds.

Tax Reports on Koinly



8. Send your report to your accountant, or complete your Self Assessment Tax Return yourself.
Use the generated file to complete your Self Assessment Tax Return or send it over to your accountant. Job done.

How to file crypto taxes with paper forms

Still sticking to pen and paper filing? No worries, Koinly can help. Follow these steps:

1. **Calculate your crypto tax.** You need to know your capital gains, losses, income and expenses.

2. **Register to file taxes online** with the Government Gateway service by the 5th of October 2021 if you're not already registered.

3. Fill out the **Self Assessment Tax Return (SA100).** Report any **income from crypto** over in **box 17.**

4. If you made **crypto capital gains**, check **yes on box 7**. Fill out the supplementary **Self Assessment: Capital Gains Summary [(SA108)](#).**

5. Submit your Self Assessment Tax Return online to HMRC by **midnight on 31st of January 2022**. You're done!

Let's look at the tax forms you might need.

Capital gains summary

WHO NEEDS TO FILE THIS?

Anyone who has capital gains or losses during the tax year. You don't need to file it if your profits are less than the annual CGT allowance (£12,000 in 2019).

WHAT INFORMATION IS NEEDED?

This form requires you to enter the number of disposals, profits and losses from your crypto trades. You also use it to declare any other capital gains ex. from the sale of a residential property.

How to pay tax on cryptocurrency UK

Once you've filed your Self Assessment Tax Return with HMRC reporting your crypto gains and income - HMRC will let you know how much tax you owe on your crypto. **You'll need to pay cryptocurrency taxes by the 31st of January 2022**.

This is the same deadline as filing your taxes, so we recommend doing this before this date so you're not stuck in the lurch with a large tax bill that needs paying straight away!

How to avoid paying tax on cryptocurrency UK

There are ways to strategically - and legally - reduce your crypto taxes. To potentially pay less tax in January 2023, you'll need to make your move **before the end of financial year** - so **by April 05 2022**.

- Hold for a year
- Take advantage of tax-free thresholds
- Invest crypto into a pension fund
- Switch your tax rate
- Make a crypto donation
- Gift crypto to your significant other
- Invest in an opportunity-zone fund
- Use a crypto tax calculator to spot unrealised losses
- Claiming losses for defunct coins / crapcoins
- Sell your crypto in a low-income year (Taking advantage of maximum allowances)

Wondering how to avoid paying tax on cryptocurrency UK? Fine-tune your crypto tax-saving strategy with our excellent guide - 8 Ways to Pay Less Tax on Crypto in the UK.

Leveraging deductible costs

There are certain allowable costs that can be deducted from the sales proceeds when calculating the gain or loss. They are:

- The consideration (in pound sterling) that was originally paid to acquire the crypto asset
- The transaction fees that are paid before the transaction is added to a blockchain
- Any exchange fees related to trades
- Professional costs for drawing up the contract for both acquisition and disposal of the asset
- Costs related to advertising for a purchaser or vendor
- Costs of making an apportionment or valuation in order to calculate the gains or losses

The following costs are not allowable for CGT purposes:

- Any costs that have already been deducted against profits for Income tax
- Costs of mining activities (such as electricity and equipment). That's because in the case of individuals mining crypto as a hobby these costs are not wholly attributable to mining crypto. However, some of these costs can be deducted against profits for Income Tax or when the mining equipment is disposed of.

In case mining is being done as part of a business, the crypto assets will form part of trading stock. If they are transferred out of trading stock, the business will be treated as if they bought the crypto at the value that's being used in the trading accounts. This value can then be used as an allowable cost when they decide to dispose of the crypto assets

Cryptocurrency trading as a business

If you are carrying on a **business** that involves cryptocurrency transactions, then the rules are more complex.

You may be liable to pay a number of different taxes like **CGT, Income Tax, Corporation Tax, Stamp Duties** and **even VAT** depending on the type of transaction.

Note that HMRC may decide to **treat you as a business even if you are an individual** if your level of activity is comparable to a business. So how does HMRC decide whether you're holding crypto as an investment or whether you qualify as a crypto trader? Here's what HMRC has to say about it:

Only in exceptional circumstances would HMRC expect individuals to buy and sell crypto assets with such frequency, level of organisation and sophistication that the activity amounts to a financial trade in itself. If it is considered to be trading then Income Tax will take priority over Capital Gains Tax and will apply to profits (or losses) as it would be considered as a business

In this case, a trade in crypto assets would be similar to trading in shares, securities, etc. This means that crypto traders can refer to the Business Income manual (BIM56800) for more information on the relevant approach.

Look out for HMRC nudge letters

In October 2021, HMRC announced that it plans to probe digital currency holders over undeclared gains. The letters are sent to encourage crypto investors to pay the correct amount of Income Tax and Capital Gains Tax on their crypto asset holdings.

The best way to avoid an unwelcome visit from HMRC is to **report and pay your crypto taxes accurately**.