# Crypto Tax

## WHAT YOU NEED TO KNOW

HODGE BAKSHI

CHARTERED ACCOUNTANTS
& CHARTERED TAX ADVISERS


# When do I need to pay tax on Crypto?

There has been a surge in Cryptocurrency investment in the last couple of years which has not gone unnoticed by HMRC in particular. “Do you have to pay tax on Cryptocurrency in the UK?” is a question that unfortunately, many people still have. The simple answer is yes, but the requirements can get a lot more complex than that.

Many investors believe that tax is only payable on Crypto profits when any funds from Cryptoassets are drawn into their bank account but investors need to calculate their gain or loss whenever they dispose of a Crypoasset as **Capital Gains Tax** may be payable.

A ‘disposal’ is a broad concept and includes:

- selling tokens for money
- exchanging one type of Cryptoasset for another
- using tokens to pay for goods or services
- giving away tokens to another person (unless it’s a gift to their spouse or civil partner)
- donating Cryptoassets to charity

**Income Tax** may also be due when a person:

- receives Cryptoassets from employment
- holds Cryptoassets as part of a trade
- is involved in Crypto-related activities that generate an income (e.g. mining)


# Income Tax

Any Cryptoassets received from employment or mining count as income and you may need to pay Income Tax and National Insurance contributions.

**Rates for Income Tax**

The rates you pay will depend on your Income Tax Band.

| Income Tax Band | Taxable Income Range | Tax Rate |
|---|---|---|
| Personal Allowance | up to £12,570 | 0% |
| Basic Rate | £12,571 to £50,270 | 20% |
| Higher Rate | £50,271 to £125,140 | 40% |
| Additional Rate | over £125,140 | 45% |

# Crypto received as employment income

You will need to check with your employer if they've paid your Income Tax and National Insurance contributions through PAYE. If they have not, you'll need to pay it yourself by completing a Self Assessment tax return.

You must keep records of this income including:

- the type of tokens received
- the date you received them
- the number of tokens received
- the value of the tokens in pound sterling
- the number of tokens you have in total
- bank statements
- the date you disposed of the tokens (also see Capital Gains Tax)

# Income from Crypto Mining

Mining Crypto may have to be reported as miscellaneous income or trading income, depending on whether it meets certain criteria. For example, someone using a home computer to mine tokens would not normally constitute to  trade. However, purchasing several dedicated computers to mine tokens for an expected net profit would probably constitute trading activity.

Where mining activity is not considered a trade, Income Tax is payable when the mining rewards are received. Where an individuals' mining activity is deemed a taxable trade, the rules & tax treatment can get quite complex. Please seek advice in the first instance as this is a highly complex area.

If the rewards are kept and then disposed of at a later date, this may also incur a Capital Gains Tax charge, meaning these Cryptoassets could incur double taxation.

# Self-employed income

If you receive Cryptocurrency as a payment for providing goods or services (other than from your employer), this will need to be reported as self-employment income. For example, if you were given Cryptoassets for free for answering a survey, this would be taxable.


# Airdrops

Airdrops can be received just simply for holding a token, in these scenarios' Income Tax may not apply. However, if you are the recipient of an airdrop, for doing something in return, then Income Tax may apply to that airdrop. In both scenarios, a subsequent disposal of tokens received through an airdrop may result in a chargeable gain for Capital Gains Tax.

# Staking

Staking is a way of earning rewards while holding onto certain cryptocurrencies. In some cases, staking rewards will initially be taxed as income, at the fiat value. When the rewards are received, any appropriate expenses can be deducted from this before tax is charged.

However, if you decide to keep the rewards, and later dispose of the tokens, then you may also incur a Capital Gains Tax charge on the disposal of your Crypto.

# Capital Gains Tax

**What is Capital Gains Tax**

Capital Gains Tax is a tax on the profit when you sell or 'dispose of' an asset that's increased in value. It's the gain you make that's taxed, not the amount of money you receive.

For example, if you bought Bitcoin for £5,000 and sold it a few years later for £25,000, you've made a gain of £20,000* (£25,000 minus £5,000).

**Capital Gains Tax-Free Allowance**

You only have to pay Capital Gains Tax on your overall gains above your tax-free allowance (called the Annual Exempt Amount).

In the Autumn Budget 2024, the Capital Gains tax-free allowance reduced to £3,000 for the 2024/2025 tax year.

This followed a revious cuts for the 2023/2024 tax year, meaning that more of the profits you make will become liable for Capital Gains Tax.

| Tax Year | Capital Gains tax-free allowance |
|---|---|
| 6th April 2024 - 5th April 2025 | £3,000 |
| 6th April 2023 - 5th April 2024 | £6,000 |
| 6th April 2022 - 5th April 2023 | £12,300 |
| 6th April 2021 - 5th April 2022 | £12,300 |
| 6th April 2020 - 5th April 2021 | £12,300 |
| 6th April 2019 - 5th April 2020 | £12,000 |

** The example provided is for illustrative purcoses only, please contact us to discuss the impact based on your specific circumstances*


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**Rates for Capital Gains Tax**

Capital Gains Tax rates increased in October 2024. The rates you pay will depend on your taxable income band. This table outlines the rate of Capital Gains Tax payable based on your Income Tax Band.

| Date | Lower Rate | Higher / Additional Rate |
|---|---|---|
| From October 2024 | 18% | 24% |
| 6 April 2024 to 29 October 2024 | 10% | 20% |
| 6 April 2019 to 5 April 2024 | 10% | 20% |

## Crypto losses

Some trades can result in losses, which can be offset against your gains to reduce the tax you pay.

HMRC does not consider theft to be a disposal, as the individual still owns the stolen asset and has a right to recover it. This means victims of theft cannot claim a loss for Capital Gains Tax.

Individuals who contract to acquire tokens, but then do not receive the tokens they have paid for, may not be able to claim a capital loss.

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# Converting Cryptocurrency

Some investors believe that tax is only payable once they convert the Cryptoassets to a legal currency and it hits their bank account. However, HMRC guidance states that converting one Cryptocurrency to another constitutes a disposal for Capital Gains Tax purposes.

Your gain is normally the difference between what you paid for an asset and what you sold it for.

For example, if you were to buy .5 BTC for £15,000 and hold onto it for two years, then exchange it for four ETH worth £30,000, you'd have a capital gain of £15,000*

If you make frequent transactions, involving multiple Cryptocurrencies, the situation can become highly complex due to the UK's Capital Gains Tax legislation.

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# Cryptoasset Reporting Framework

Cryptoasset investors should keep up-to-date records to ensure they pay the right amount of tax, HMRC may ask to see these records.

HMRC have already started working with many well-known Crypto platforms and exchanges to ascertain who may have tax to pay on their Cryptoassets.

Some Crypto holders may have already received a 'nudge' letter from HMRC, indicating they need to check their tax liability.

In 2023, the UK Government has announced it was joining a group of 48 countries to combat criminals using Cryptoassets to evade tax. These countries have committed to rapidly adopting the Crypto-Asset Reporting Framework (CARF) which will require Crypto platforms to begin sharing taxpayer information with tax authorities.

This means that from 2026, HMRC will receive even more data from exchanges through the Crypto-Asset Reporting Framework. They can access data going back several years, meaning **undeclared gains will eventually come to light**.

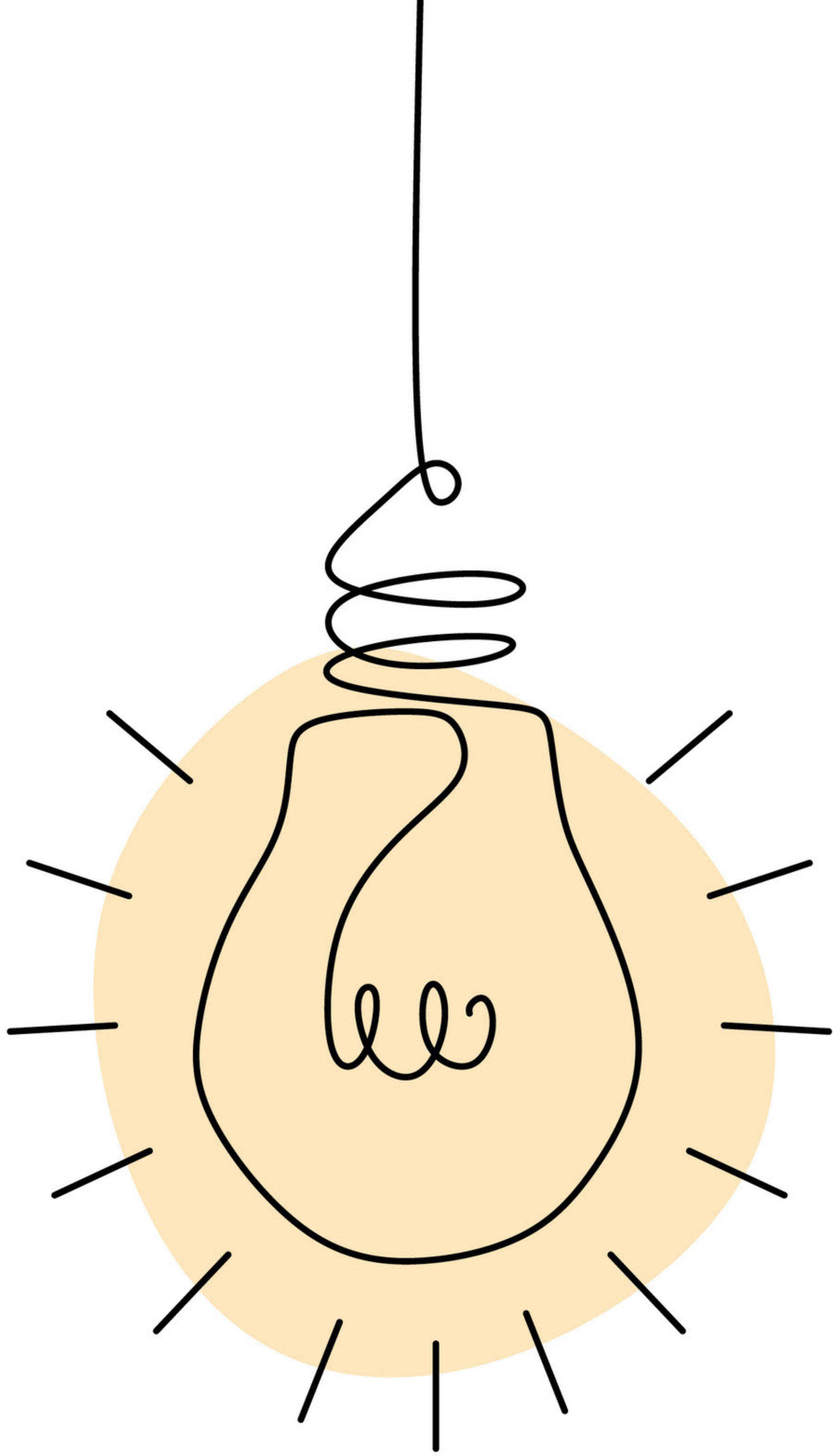

# How we can help

Hodge Bakshi Chartered Accountants & Chartered Tax Advisers are among the leading Crypto tax accountants in the UK, one of the earliest UK firms to engage with this rapidly evolving sector. We are also proud members of CryptoUK, the UK's largest self-regulatory association representing the Cryptoasset sector.

As a result, we have been significantly involved in helping clients across a wide array of Cryptocurrency tax-related issues. This has ranged from basic compliance to some highly complex Crypto tax issues and even helping other professional Crypto tax advisers.

Due to the nature of Cryptoassets, our services are bespoke to each client. Some of our past work and experience includes:

- Calculations for Capital Gains Tax involving the most basic to the most complex scenarios including voluntary disclosures
- Maintaining a running log of their asset pools and therefore helping clients plan for future disposal / tax liabilities
- Tax advice on:
  - Staking, Mining and Airdrops
  - Soft / Hardforks
  - Peer to Peer Lending
  - Liquidity Pooling
  - 'Dividends' for holding specific tokens
  - DeFi
  - NFTs
- Advice around the best structures to hold cryptocurrencies (individual vs limited company)
- For Limited Companies, Accounting and Corporation Tax advice
- Advice on Income Tax (and losses!) e.g. identification of reportable 'miscellaneous income' which falls under Income Tax
- Plus much much more



# Need help?

## Find out if you may need to seek advice

Visit our website - Find out if you may need to seek advice

## Contact Us

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