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Tax Implications of Cryptocurrencies

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Our Speakers



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What will be covered

1. What is cryptocurrency?
2. What is HMRC's view on cryptocurrency?
3. What are the tax implications of trading cryptocurrencies?
4. What are the tax implications of mining cryptocurrencies?
5. How will tools such as Staking, Forking, Airdrops (and other niche areas) affect my investment into cryptocurrencies?





What is Cryptocurrency?

- A de-centralized digital asset used as an exchange which uses cryptography as a means of security.
- Operate without the backing of any central authority such as banks or the government. Instead, crypto currency is underpinned by 'blockchain technology'.
- A 'blockchain' is a decentralized ledger of all transactions across a peer-to-peer network. Using this technology, participants can confirm transactions without a need for a central clearing authority.
- Cryptocurrency can be traded on specific exchanges such as coinbase, huobi, etoro, binance etc, and can now traded through most mainstream banks and online payment platforms e.g.: paypal.
- Most common cryptocurrencies include Bitcoin, Ethereum, Ripple and Dogecoin.



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Statistics

- Based on a summary of recent surveys carried out into the ownership of cryptocurrency, it is estimated just under 5% of the UK's total population currently own cryptocurrency (as of 2021).
- Significant increase in the previous 12 months – mainly due to investments made during lockdown.
- Most common ownership age is over 35 year olds.
- Most people see crypto as an investment opportunity, whilst some see it as the new form of currency and as a way of making payments.
- Only small sample sizes have been carried on so far – total numbers are still relatively unknown.

*All figures per FCA survey.



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How do HMRC view them?

- There is no specific cryptocurrency tax in the UK. Either the cryptocurrency will be subject to income tax, or capital gains tax.
- Deemed to be very similar to shares, not deemed as currency by HMRC.
- Individuals hold crypto as personal investments, for capital appreciation or to make particular purchases.
- HMRC don't deem buying and selling crypto to be gambling – won't be exempt from tax.



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Trade or Capital?

- Very common that any cryptocurrency trading will be deemed capital gains, and will be subject to capital gains tax.
- HMRC would only in exceptional circumstances expect an individual to trade cryptocurrency with such frequency that it would amount to a trade. If deemed a trade, any profits would be liable to income tax and national insurance.
- HMRC would look upon the following when deciding if activities amount a taxable trade:
 - degree of activity
 - organisation
 - risk
 - commerciality.



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Disposal Rules

- **What do HMRC deem to be a disposal?**
 - Anywhere where an individual loses beneficial ownership of the token at some point in the transaction.
 - Sale of Cryptoassets for cash
 - Sale of one coin for a different coin
 - Using crypto to pay for goods or services
 - Gifting crypto to another individual (besides a spouse or civil partner)
 - Transfer of crypto between wallets is not deemed to be a disposal – beneficial ownership is retained throughout the transaction.



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How are gains calculated?

- Sale of cryptocurrency for cash – the cash received on sale will be the sale proceeds, and the cost of the cryptocurrency sold will be deducted.
- Sale of one coin for another – the market value of the coin traded for will be the sale proceeds, and the original purchase price of the coin exchanged will be the cost.
- Paying for goods and services – the price paid for the goods will be deemed as the sale proceeds, and the cost will be the cost directly related to the asset.
- Gifting coins – the deemed sale proceeds will be market value of the coin at the date of gift, with the cost being the amount originally paid for the crypto.



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Losses / Negligible Value Claims

- If an asset decreases in value over an ownership period and a loss is made on disposal, it will be treated as a capital loss to be offset against gains made in the same year, or can be carried forward against gains in future years.
- If an a token was to become worthless, a negligible value claim can be made to claim the capital loss. For the claim to be made, the crypto token must have been held at the date it became of negligible value (eg terra luna price crash).
- No loss relief can be claimed if a token is lost, or if it is stolen, as they are not deemed disposals for capital gains tax purposes.



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Different Mechanisms within Crypto

- Mining
- Staking
- Forking
- Airdrops



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Mining

- Mining is a method of 'creating' tokens.
- Often involves using computers/computer hardware to solve mathematical problems in order to generate new tokens in the blockchain.
- Once the puzzle is solved, the individual will receive the token generated.
- Mining can be deemed to be a trade, depending on the factors listed earlier.
- If deemed a trade, any profits made will be taxable as trading income, and the sale of any coins will give rise to an additional trading profit or loss.
- If these conditions are not met, the value of any tokens received at the time of receipt will be taxable as other income, with any allowable expenses reducing the taxable profit.
- The sale of any tokens generated via mining will be chargeable to capital gains tax.



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Staking

- Earning passive income on Cryptoassets held (similar to earning interest on cash).
- Only available for certain coins, and on certain platforms.
- Taxed as other income rather than interest (no 0% interest rates).
- If an individual makes a business of investing into staking Cryptoassets, the income received will be taxable as trading income.



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Forking

- Occurs where there is a change or update to a specific blockchain.
- Can either be a 'soft fork' or a 'hard fork'.
- 'Soft fork' – An update to the blockchain, but no split to the chain so no new coins are created.
- 'Hard fork' – A change to the blockchain, so a new blockchain is created (eg. fork of bitcoin into bitcoin cash or more recently terra luna hard fork).
- No tax implications as a result of a soft fork.
- No immediate tax payable on coins received on a hard fork.
- CGT payable when sold – base cost of the coin will be proportion of base cost of original coins.



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Airdrops

- Where free tokens are received, usually as part of a marketing campaign or because of holding certain coins.
- Can be received by an individual signing up for a specific airdrop.
- The airdropped token will not be same cryptocurrency, it will be a completely new cryptocurrency that operates independently.
- Income tax will only be due on an airdrop if they are provided in return for, or in expectation of a service (similar to a trade).
- If liable to income tax, it will be deemed miscellaneous income, taxable at 20/40/45%.
- If airdrops are received with nothing expected in return, there will be no income tax payable.
- Capital gains tax will be due when an airdrop token is sold, regardless of whether it was liable to income tax when received.



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Contractual Payments via Cryptocurrency

- Becoming more common that crypto is given as a form of income as part of employment contracts.
- Where crypto is used as payment for part of an employment contract, they will be subject to income tax and national insurance contributions on the value of the asset.
- Income tax and national insurance due on the best estimate of the value of the asset on the date provided to the employee.
- Any subsequent disposals of the tokens would be subject to capital gains tax for the employee.



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HMRC Investigations/Data

- HMRC issued an initial nudge letter on 20 October 2021 to various individuals who currently hold or may have held cryptocurrency in the past.
- ‘One to many’ letter – isn’t a direct enquiry, but is more of a reminder to disclose any disposals made.
- HMRC have issued a notice to Coinbase to provide information of users accounts who received fiat currency payments of more than £5,000 during the 2019 and 2020 tax years.
- They have also confirmed they have requested customer data from other crypto exchanges, so we could see more letters being sent out to individuals who hold/have held cryptocurrency.



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Inheritance Tax & Stamp Duty

- Cryptocurrency is deemed property for IHT purposes, so will make up part of an individual's estate.
- The location of assets for non-UK domiciled individuals is a grey area – typically they are located where the individual is resident.
- The transfer of exchange tokens are unlikely to be chargeable to stamp duty.
- If exchange tokens are given as consideration for a land transaction, this would fall within the definition of 'money or money's worth', so would be chargeable to stamp duty land tax.



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Making Crypto Taxes Simple

More Information

- <https://koinly.io/>
- [@TheCryptoTax](https://twitter.com/TheCryptoTax) - **Twitter**

Questions?



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