

Cryptocurrencies – Taxation and the new kid on the blockchain



Cryptocurrencies are big news. 2018 saw media headlines reporting exorbitant gains (and huge losses) for Bitcoin and others. Such volatility has not dampened the market and it is clear that cryptoassets along with other asset classes built on blockchain are developing rapidly and are here to stay.

The regulatory and tax authorities are now catching up with this emerging asset class, and HMRC have provided some clarity on the tax treatment – at least for individuals if not yet for companies.

A key point – HMRC does not view cryptocurrencies as currencies but rather as assets which are taxed depending on profits and gains, and their use in transactions.

The following summarises how you may be taxed on cryptocurrencies.

What if I hold cryptocurrency as an investment?

Gains are subject to capital gains tax (**CGT**), and the usual rules for CGT apply, for example:

- losses may be set off or carried forward
- gains and losses are calculated on the sterling value at the date of acquisition and disposal (which may present a challenge in itself!).
- deductions will be available; HMRC confirm these will include:
- the amount originally paid for the asset
- transaction fees paid before the transaction is added to a blockchain



- advertising for a purchaser or a vendor
- costs to draw up a sale contract
- costs of a valuation or apportionment to calculate gains or losses

Note:

- cryptocurrencies are 'pooled' for tax purposes so a disposal will attract a proportion of the total deductible expenses on the whole pool rather than those attributed to individual assets; and 'disposal' for CGT purposes includes sale, gift, exchange or use of cryptocurrency to purchase an item.

What if I trade in crypto-assets?

If you trade frequently (i.e. not one-off or occasionally), you may have to pay income tax on your trading profits, although business expenses may be deducted in the usual way.

What if I am involved in mining cryptocurrencies?

If you are paid (in cryptocurrencies or otherwise) for mining cryptocurrencies then you are likely to be liable to income tax.

What if I pay for or receive payment for goods or services in cryptocurrencies?

Where a cryptocurrency is used to buy goods or services it will be a disposal for CGT purposes. Records will have to be kept to demonstrate losses or gains arising. If using cryptocurrencies in the course of your business, full records must be kept.

What if I am paid part of my salary in cryptocurrencies?

On receipt you will be taxed as if you had been paid in cash. If the cryptocurrency can be traded on an exchange, the tax is deductible by your employer through PAYE and will be subject to NICs.

Are my cryptocurrencies subject to inheritance tax?

Yes, they form part of your taxable estate.

Is VAT payable on cryptocurrencies?

There is no VAT on mining or 'trades' in cryptocurrencies. However, if goods or services are paid for in cryptocurrencies, VAT will apply as usual.

What records do I need to keep?

In view of the intangible nature of cryptocurrencies, and the difficulty of tracing past transactions, it is vital to keep good records. If HMRC enquire into your tax return, they will want to see your supporting transaction records and might want to access online wallets and/or bank statements. The more information and records are kept, the simpler the process will be.