Fuller Spurling
CHARTERED ACCOUNTANTS

Cryptocurrencies – should they appear on my tax return?

Many investors hold different types of cryptocurrency such as coins, tokens etc and the buying and selling of these currencies can vary. So does this impact your tax situation and tax returns? Let's find out….

Capital Gains Tax

In the vast majority of cases, individuals who buy and sell cryptocurrency as a personal investment will be liable to pay Capital Gains Tax when they dispose of this asset and realise a gain. There is currently an annual allowance for Capital Gains Tax of £12,300 (based on 2021-22 rates) and this is available to resident taxpayers who are not claiming the remittance basis.

The rate of Capital Gains Tax is currently 10% for basic rate tax payers (up to £37,700) and 20% thereafter. Tax is due on the net gain, which is the gain after deducting the original cost of an asset plus any available relevant capital expenditure.

Care must be taken to ensure that in calculating the gain, taxpayers do not fall foul of missing the "same day rule" and "share pooling rules" as these apply to cryptocurrencies as they do stocks and securities. Where an individual makes acquisitions and disposals of a particular type of tokens on the same day then:

- All of the tokens acquired shall be treated as acquired in a single transaction
- All the tokens disposed of shall be treated as disposed of in a single transaction.

If an individual disposes of tokens and then acquires them within the next 30 days then this will also create a different result for the calculation and the same day rule is applies first before the 30 day rule which matches disposals on the basis of earliest disposal first.

Trading or Employment Related?

However, individuals will be liable to pay Income Tax and National Insurance instead of Capital Gains Tax if:

- they receive cryptoassets from an employer as a form of non-cash payment or,
- mining, transaction confirmation or airdrops, or
- they are running a business which is carrying on a financial trade in cryptoassets and they are realising taxable trading profits

If this is the case, individuals will need to keep records of their activities so that this can be reported on their tax returns. These must include:

- the type of cryptoasset
- the date of the transaction
- if they were bought or sold
- the number of units involved
- the value of the transaction in pound sterling
- the cumulative total of the investment units held
- bank statements and wallet addresses, in the event of an enquiry

Stamp Duty

Stamp Duty is charged when stocks or marketable securities are transferred.

This article was produced in July 2021 – please always check with Fuller Spurling that information is current, up to date and applicable to your situation.

HMRC's current view is that the transfer of exchange tokens does not meet the definition of 'stock or marketable securities' however they continue to assess transactions on a case by case basis, dependent on the characteristics and nature of the cryptoasset.

If exchange tokens are provided in exchange for something else, including stock or marketable securities, then this could trigger a stamp duty charge. Therefore, it is important to consider the facts of a transaction in full.

Inheritance Tax

Cryptoassets are regarded as 'relevant property' for Inheritance Tax. The location of the asset will need to be determined as individuals who are non-domiciled in the UK will only be chargeable to Inheritance Tax on UK situs assets (assets located in the UK). Determining the value for Inheritance Tax, and the above taxes, must be in sterling. As many of these currencies are traded on exchanges which use other currencies, the value of any gain or loss must be converted and reasonable care taken to arrive at the correct valuation.

Please do let us know if you have any questions or if you need any further help understanding the rules.