



THE TAXATION OF CRYPTOCURRENCY IN THE UK



A BEGINNER'S GUIDE TO THE TAXATION OF CRYPTOCURRENCY IN THE UK

In the UK, current regulations state that you have to pay tax on cryptoassets but only when you dispose of them. Cryptocurrency is treated in the same way as other assets like shares or property, in that you will pay Capital Gains Tax on the assets.

Do you have to pay Capital Gains Tax on every crypto transaction?

HMRC allow every UK tax payer a Capital Gains Allowance of £12,300. This means you will only have to pay tax on any capital gains you have over the allowance. The tax you pay will then be determined by your earnings and the income band you fall in (much like income tax).

Is buying and selling crypto assets the same as gambling?

HMRC doesn't consider the buying and selling of cryptoassets to be the same as gambling. The term 'gambling' is not defined in the Income Tax or Corporation Tax Acts, or in the Taxation of Chargeable Gains Act 1992.

How can you minimise the amount of tax you pay?

With most things in life, it always seems that everything is taxed! However, if we follow the rules around capital gains tax then there are ways to minimize your tax bill.

Need help? Get in touch with our team today

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Here's a few examples of how you can minimise your tax bill:

- **Utilise your annual capital gains tax allowance**
 - You only have to pay capital gains tax on your overall gains above your tax-free allowance (called the annual exempt amount).
 - The correct capital gains tax allowance for the 21/22 and 22/23 tax year is £12,300
- **Using losses to reduce your gain**
 - When you sell cryptocurrency for less than the cost of the asset, this will then create a capital loss. This capital loss can be deducted from other gains made within the same tax year or carried back to use against a prior gain.
 - You can also forward the loss onto future gains and you actually don't have to report the loss straight away, you can claim up to 4 years after the tax year they occurred in.
 - Please note that if the disposal has arisen due to a disposal to a connected person, the actual sales price is not calculated in the same way. The market value of the crypto on the date that it's disposed of is what is used.
- **Allowable expenses - Under section 38 of the Taxation of Chargeable Gains Act (TCGA) 1992 allows for certain costs which can be deducted. These are:**
 - The consideration (in GBP) for what you originally paid for the asset
 - Transactions fees relating to the transaction being distributed on the ledger
 - Exchange fees related to the trade of cryptocurrency
 - Cost relating to advertising for a purchaser or vendor
 - Professional costs to draw up a contract for the acquisition or disposal of the tokens
 - Costs of making a valuation or apportionment to be able to calculate gains or losses

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Please be aware the following costs are not allowable costs in relation to capital gains tax:

- Cost for mining activities. Equipment brought for mining may be an allowable deduction in a disposal of that equipment subject to relevant provisions such as the chattels exemption
- Costs that have already been used as deductible expense for income tax

Buying and selling cryptocurrency at the best of times can feel like it's a bit of a minefield and then throwing in the required tax calculations can just become too much for one brain, let alone time consuming.

Our crypto, accounting and tax experience will help you get all of your wallets, exchange accounts and transactions into one manageable system. Therefore, accurately being able to pool and calculate the gains that may arise and understand the tax implications of your activity.

If you would like to discuss your crypto needs further then please don't hesitate to contact us on 01952 882434 or info@turasaccountants.co.uk

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CAPITAL GAINS TAX AND CRYPTOCURRENCY DISPOSALS

The current regulations that the HMRC have set in place for the UK regarding cryptocurrency is that an individual will be liable to pay Capital Gains Tax (CGT) when they dispose of any crypto assets they may have.

What classes as a disposal for Capital Gains Tax (CGT)?

If you are classed as an individual and you are holding cryptocurrency, which you use as an investment then you may be liable to pay capital gains tax when you make a disposal. Most investors are generally not aware of what a disposal is.

HMRC has outlined that a disposal takes place when:

- You sell crypto assets for money
- You exchange one crypto asset for another (e.g., you exchange Bitcoin for Ethereum)
- You use your crypto assets to pay for goods or services
- You give away a crypto asset to another person (excluding spouses)

How much Capital Gains Tax will you need to pay?

As with any income that you get, you will inevitably need to pay tax on your profits from any cryptocurrency transactions that you make. The amount of tax you will pay depends on what rate band you fall under for income tax.

- If you are a high rate or additional rate taxpayer then your capital gains tax rate will be 20%.
- If you are a basic rate taxpayer then your capital gains tax rate will be 10%.

The amount of tax will be calculated based on the size of the gain while also utilising all of the available allowances.

As with anything tax related, your individual circumstances will largely determine how much tax you will end up paying. It is extremely important that you understand your liabilities to avoid any unwanted investigations or penalties.

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WHEN ARE YOU CLASSED AS A TRADER OF CRYPTOCURRENCY?

The world of cryptocurrency is a huge one. There are many different levels of trading and investing in cryptocurrency, and it can become confusing when you are wanting to work out what bracket you and your business are classed under.

Just like any other income you have, it is important you are logging it correctly to HMRC so that they can calculate your tax responsibilities.

Are you a cryptocurrency investor or a trader?

The first thing you need to do when it comes to working out your tax liabilities regarding cryptocurrency is to work out whether you are classed as an investor or a trader.

Investors

You are classed as a cryptocurrency investor if you are someone who is primarily buying and selling as a personal investment tool. Most people who are involved with cryptocurrency will be considered investors. As a general rule, your transactions will be subject to Capital Gains Tax.

Traders

You are classed as a trader if you are someone whose primary source of income is the buying and selling of cryptocurrency. Instead of assessing each individual transaction as capital gains, traders treat their profits as personal income instead.

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WHEN ARE YOU CLASSED AS A TRADER OF CRYPTOCURRENCY?

How does HMRC view cryptocurrency?

As cryptocurrency is a fairly new concept, HMRC are constantly evaluating and evolving their guidance and practises around it. There are a few particular pieces of guidance that they are currently offering:

HMRC don't view cryptocurrency as money but as an asset

This means that selling or disposing of your cryptocurrency will result in capital gains, even if you're using that cryptocurrency to purchase something. The same tax rules that apply to the buying and selling of shares, also apply to the buying and selling of cryptocurrencies.

HMRC distinguish between three types of cryptoassets

- Exchange tokens - These have the ability to be exchanged for value or held as investments.
- Utility tokens - These tokens can only be used within certain frameworks or organisations (for example, fan clubs).
- Security tokens - These represent real life assets or debts.

Tax depends on whether you're a trader or investor

The tax that you'll have to pay on a cryptocurrency transaction will depend on two things: whether you're an investor or a trader; and whether the transaction is considered a capital gain or assessable income.

HMRC states: "Only in exceptional circumstances would HMRC expect individuals to buy and sell exchange tokens with such frequency, level of organisation and sophistication that the activity amounts to a financial trade in itself".

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CRYPTOCURRENCY JARGON BUSTER

Cryptocurrency has become the latest financial and accounting trend across the globe in recent years. It's going to grow in popularity fairly fast, so the chances are you will need to have an understanding of it. As with anything new, there are many new technical terms associated with cryptocurrency that can be quite difficult to understand at first.

We have put together a jargon buster for you to refer to if you ever come across the below terms:

Mining - Crypto mining refers to the process of gaining cryptocurrencies by solving cryptographic equations with the use of high-power computers. As the outcome of this work, the miners receive pay with cryptocurrency.

Blockchain - Blockchain is a system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system. A blockchain is essentially a digital ledger of transactions that is duplicated and distributed across the entire network of computer systems on the blockchain.

Airdrop - An airdrop is a distribution of a cryptocurrency token or coin, usually for free, to numerous wallet addresses.

Initial Coin Offering - An Initial Coin Offering is an unregulated process by which funds are raised for a new crypto venture via the issue of a cryptographic token.

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Wallet - The software used to send and receive bitcoin and other cryptocurrencies.

Hard Fork - A hard fork is when a single cryptocurrency splits in two. It occurs when a cryptocurrency's existing code is changed, resulting in both an old and new version.

Fiat Money - This type of money is generally an established currency, often by government regulation e.g., GBP/USD.

Ledger - A cryptocurrency public ledger is a record-keeping system. The ledger maintains participants' identities anonymously, their respective cryptocurrency balances, and a record of all the genuine transactions executed between network participants.

Private Key - A private key is like a password. It's a string of numbers and letters that allows you to access and manage your crypto funds.

These are the most common jargon words associated with the world of cryptocurrency, but there are many more.

If you need help understanding anything to do with cryptocurrency, and the accounting and tax implications it has for you and your business, please get in touch with our team today on 01952 882434 or info@turasaccountants.co.uk

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