Welcome to Platinum Crypto Academy

Platinum Crypto Academy Aims to provide a simple overview of UK tax rules for newcomers to bitcoin and cryptocurrency. Although all information provided has been verified in communication with HM Revenue & Customs, it is not written by tax professionals and not legal advice; for that, please consult a financial adviser or tax consultant.

You can also study HMRC's brief on cryptocurrencies here or consult our guide for advice regarding your specific situation.

We are always looking to improve, so please do contact us if there are any queries you would like covered. For guide updates, UK tax news and filing reminders please join our mailing list!

Crypto Tax Guide

This guide is not legal advice; for that, please consult a tax professional.

KEEP RECORDS

The main thing to remember is to keep records!

Bear in mind that exchanges that are around now might not be in a few years' time when you decide to sell.

Most exchanges will let you download CSV files of your trades.

If you are feeling lazy, at least try to take a screenshot of recent transactions you have made.

You can create a separate email address for all your crypto records so that you can quickly email files to yourself for reference later. Please don't let your security details come anywhere near it though!

Here are some common positions you may find yourself in:

1. I'VE BOUGHT SOME BITCOIN OR OTHER CRYPTOCURRENCY

When you buy bitcoin or cryptocurrency, nothing is expected of you at point of sale. However you will need a record of the price you bought it at to calculate taxes when you sell it in the future.

2. I WAS GIFTED SOME BITCOIN OR OTHER CRYPTOCURRENCY

For future tax purposes, make a note of the value of the gift on the date of the gift.

3. I'VE JUST SOLD SOME CRYPTOCURRENCY FOR FIAT

The tax that you might be liable for in this instance is Capital Gains Tax (CGT) – a tax on the profit that is made when you sell something that has increased in value. If tax is due it is only on the gain that you have made, not the entire amount you receive from the sale. This is why keeping records of the purchase value of your cryptocurrency is important. You can also include transaction costs such as transfer fees when calculating your gain.

The annual tax-free allowance for an individual's asset gains is £11,300 for 2017/18. So if the profit from selling your cryptocurrency, in addition to any other asset gains, is less than this, you won't have to report or pay tax on it.

However, if you sell up to four times the annual allowance (£45,200 for 2017/18) of crypto-assets, even if you make a profit of less than £11,300, you have to report this sale to HMRC. You can do this either by registering and reporting through Self-Assessment, or by writing to them at:

PAYE and Self-Assessment
HM Revenue and Customs
BX9 1AS
United Kingdom

An extra tip for married individuals: you can gift up to £11,300 of assets to your spouse, and use their Capital Gains Tax allowance, thereby getting up to £22,600 of capital gains tax free annually.

You have two options for how you declare your gains to HMRC:

A. As soon as you wants after the sale using the 'real time' Capital Gains Tax service

You must report by 31 January after the tax year when you had the gains. (The tax year runs from 6 April to 5 April the following year. So if your sale takes place on 18 April 2018, then you have to report by 31 January 2020. If your sale takes place on 4 April 2019, you also have to report by 31 January 2020.)

HMRC will then contact you with instructions for payment.

It is recommended only to use this option as a last resort, for example, if you are late in registering or filing your return.

B. In your annual Self-Assessment tax return

If you are self-employed or run a business, you might already send a tax return. But if you don't, then you have to register for Self-Assessment by 5 October following the tax year you sold your cryptocurrency. (Again, the tax year runs from 6 April to 5 April. If your sale takes place on 18 April 2018, or 4 April 2019, then you have to register by 5 October 2019.) If you're already registered but haven't received a letter reminding you to fill in a return, contact HMRC by 5 October. You must send your return by 31 January of the next tax year.

HMRC will then contact you with instructions for payment.

4. I'VE JUST SOLD SOME CRYPTOCURRENCY FOR OTHER CRYPTOCURRENCY / STARTED TRADING

Until you declare yourself as a trader to HMRC (as below), you are considered an investor and your annual gains are subject to Capital Gains Tax as above.

Remember that even if you make less profit than the CGT allowance but have sold more than four times the allowance's worth in cryptocurrency, then you have to report this to HMRC as above.

If you have made more than the CGT allowance then you will have to report and pay tax on your gains. Bear in mind that every single trade you make – even crypto to crypto – will most likely impact tax calculations. (To calculate capital gains on a crypto to crypto trade, convert everything into GBP value at the time of the trade. I know… It's crazy.) So if you have made a significant number of trades, it is probably worthwhile getting a tax professional just to make sure you get things right.

Advice from HMRC was to consider the tax rules governing the sale of shares (which can be found here and in further detail here) as comparable to the sale of cryptocurrency.

What is significant with respect to CGT is the concept of share matching, roughly translated to a complex example BTC scenario as follows:

Say you have accumulated 1 BTC over 8 months, having bought 0.25 BTC every two months at different prices (January: £1500, March: £2000, May: £2500, July: £3000). On 1 October 2017 you buy a further 0.25 BTC at £3500 before deciding to sell 0.6 BTC that same night – but at what price did you buy this amount? Furthermore, after selling this, you decide to buy 0.2 more BTC at £3600 on 17 October 2017.

This is the order in which your BTC is priced and disposed of:

1. BTC that you have bought on the same day ('same day' rule)

So in our case, the 0.25 BTC bought at £3500 on the 1 October 2017 will be accounted for at that price, leaving a further 0.6 – 0.25 = 0.35 BTC to account for. This portion will cost 0.25 * £3500 = £875.

2. BTC acquired within 30 days of the sale ('bed and breakfasting' rule)

In our case, the 0.2 BTC bought on 17 October 2017 will be accounted for at £3600, as it is within 30 days of the sale date of 1 October 2017, leaving a further 0.35 – 0.2 = 0.15 BTC to account for. This portion will cost 0.2 * £3600 = £720.

3. A BTC pool where the cost has been averaged

You will pool your BTC together (the equivalent of a 'Section 104 holding' for shares) and average the cost.

So in this case, the average price will take into account all the BTC you have bought prior to the sale on 1 October 2017. (The BTC you bought on 1 October 2017 has already been accounted for as a result of rule 1.) So we have (0.25 * £1500 + 0.25 * £2000 + 0.25 * £2500 + 0.25 * £3000) / 1 BTC = £2250 as the average cost price. The cost of this portion will be 0.15 * £2250 = £337.50.

So the total cost of the 0.6 BTC sold on 1 October comes to £875 + £720 + £337.50 = £1932.50

As you can see, it is a bit of a headache. Although there are services and apps which allow you to import CSV files of your trades from major exchanges and help you do some of these calculations, we cannot currently recommend any particular service for UK-based investors. It really is best to get an accountant if your trading history is complex.

For further guidance regarding your specific case you may also call HMRC at 0300 200 3300. Friday afternoon has been suggested as a less busy and therefore better time to call.

5. I TRADE A LOT!

If you trade crypto but are unsure whether your trading constitutes a 'trade' in the eyes of HMRC, they suggest looking up the badges of trade to see how many you fulfil. However as this is not clear cut in any form, it's probably best to discuss your position with a tax professional, as if you do qualify; you have to set up as a sole trader, after which your gains will become subject to Income Tax, not CGT. Usually your tax burden will be higher as a result.

Platinum_ suggests that unless you are doing things a stockbroker might do – systematically trading full time every day, dealing with other people's money, hedging against your investments, advertising your services and earning commissions, your trades will most likely be subject to CGT assessment as above, not Income Tax.

In any case, if you have to set up as a sole trader, register for Self-Assessment if you haven't done so already. You may do so online here. Note that you may be fined if you don't do so by 5 October in your business's second tax year. As a professional trader, you have to learn the tax rules of running a business – details regarding this can be found in the Business Income Manual.

6. I'VE BOUGHT SOMETHING USING CRYPTOCURRENCY

When one spends cryptocurrency in order to purchase a good or a service, this is still considered an asset disposal and has to be assessed as such.

Let us take the simple example of Jim buying a coffee worth £2.80.

He pays 0.00038 BTC, as the exchange rate at the time of the purchase is £7345.42 / BTC.

What is important here is the price at which he purchased the BTC he is paying with.

To calculate this, we return to our disposal rules, in this order:

1. Any BTC Jim bought on the same day ('same day' rule)

2. Any BTC Jim acquired within 30 days of the sale ('bed and breakfasting' rule)

3. A pool where the cost of all the BTC Jim owns has been averaged

Let's say Jim happened to buy 0.001 BTC that very morning at an exchange rate of £7289.67 / BTC. We can therefore use rule 1 – the 'same day' rule, using this price for calculating the value of the BTC he used to pay for the coffee:

0.00038 * £7289.67 = £2.77

So Jim's capital gain in this instance is £2.80 – £2.77 = £0.03!

Until HMRC provides explicit advice to the contrary, it is advisable to keep a spread sheet of any purchases made with cryptocurrency, no matter how small, in case you exceed your personal capital gains allowance.

Revenue and Customs Brief 9 (2014): Bitcoin and other cryptocurrencies

Published 3 March 2014

PURPOSE OF THIS BRIEF

This brief sets out HM Revenue and Customs (HMRC) position on the tax treatment of income received from, and charges made in connection with, activities involving Bitcoin and other similar cryptocurrencies, specifically for VAT, Corporation Tax (CT), Income Tax (IT) and Capital Gains Tax (CGT).Readership

Anyone making charges or otherwise receiving income, in whatever form, from activities involving Bitcoin (or other cryptocurrencies), including:

- Bitcoin miners
- Bitcoin traders
- Bitcoin exchanges
- Bitcoin payment processers
- Other Bitcoin service providers

BACKGROUND

Bitcoin is seen as the world's first decentralised digital currency, otherwise known as a 'cryptocurrency'. The advent of cryptocurrencies such as Bitcoin is a new and evolving area and determining their legal and regulatory status is on-going. Cryptocurrencies have a unique identity and cannot therefore be directly compared to any other form of investment activity or payment mechanism.

HMRC understands that Bitcoin operates via a peer to peer network, independent of any central authority or bank. All functions such as issue, transaction processing and verification are managed collectively by this network. All Bitcoin transactions are recorded in a shared public database called a 'block-chain'. New Bitcoin is produced when a new block is attached to the chain. A new block can only be added to the chain when the answer to a complex cryptographic algorithm is solved. Participants in this activity are known as 'miners'.

As well as mining, activities include the buying and selling of Bitcoin and providing exchange facilities for parties to trade Bitcoin with recognised currencies. Bitcoin may be held as an investment or used to pay for goods or services at merchants where it is accepted. In the UK, there are already a number of outlets, including pubs, restaurants and internet retailers that accept payment by Bitcoin.

VAT TREATMENT OF BITCOIN AND OTHER CRYPTOCURRENCIES

As an EU tax, the VAT treatment for cryptocurrencies adopted by the UK must be consistent with any treatment that may eventually be implemented across the EU.

Given this, the evolutionary nature of these cryptocurrencies and the legal and regulatory environments in which they currently operate, this brief outlines HMRC's provisional VAT treatment pending further developments; in particular, in respect of the regulatory and EU VAT position. Taxpayers can rely on the VAT treatment outlined below unless and until HMRC announces any changes. Any changes will not apply retrospectively.

For VAT purposes Bitcoin and similar cryptocurrencies will be treated as follows below, this in no way reflects on how they are treated for regulatory or other purposes:

- Income received from Bitcoin mining activities will generally be outside the scope of VAT on the basis that the activity does not constitute an economic activity for VAT purposes because there is an insufficient link between any services provided and any consideration received
- Income received by miners for other activities, such as for the provision of services in connection with the verification of specific transactions for which specific charges are made, will be exempt from VAT under Article 135(1) (d) of the EU VAT Directive as falling within the definition of 'transactions, including negotiation, concerning deposit and current accounts, payments, transfers, debts, cheques and other negotiable instruments'
- When Bitcoin is exchanged for Sterling or for foreign currencies, such as Euros or Dollars, no VAT will be due on the value of the Bitcoin themselves
- Charges (in whatever form) made over and above the value of the Bitcoin for arranging or carrying out any transactions in Bitcoin will be exempt from VAT under Article 135(1)(d) as outlined at 2 above

However, in all instances, VAT will be due in the normal way from suppliers of any goods or services sold in exchange for Bitcoin or other similar cryptocurrency. The value of the supply of goods or services on which VAT is due will be the sterling value of the cryptocurrency at the point the transaction takes place

CT, IT AND CGT TREATMENT OF BITCOIN AND OTHER CRYPTOCURRENCIES

As with any other activity, whether the treatment of income received from, and charges made in connection with, activities involving Bitcoin and other similar cryptocurrencies will be subject to CT, IT or CGT depends on the activities and the parties involved.

Whether any profit or gain is chargeable or any loss is allowable will be looked at on a case-by-case basis taking into account the specific facts. Each case will be considered on the basis of its own individual facts and circumstances. The relevant legislation and case law will be applied to determine the correct tax treatment. Therefore, depending on the facts, a transaction may be so highly speculative that it is not taxable or any losses relievable. For example gambling or betting wins are not taxable and gambling losses cannot be offset against other taxable profits.

For businesses which accept payment for goods or services in Bitcoin there is no change to when revenue is recognised or how taxable profits are calculated.

- CT – the profits or losses on exchange movements between currencies are taxable. For the tax treatment of virtual currencies, the general rules on foreign exchange and loan relationships apply. We have not at this stage identified any need to consider bespoke rules. For companies, exchange movements are determined between the company's functional currency (usually the currency in which the accounts are prepared) and the other currency in question. If there is an exchange rate between Bitcoin and the functional currency then this analysis applies. Therefore no special tax rules for Bitcoin transactions are required. The profits and losses of a company entering into transactions involving Bitcoin would be reflected in accounts and taxable under normal CT rules
- IT – the profits and losses of a non-incorporated business on Bitcoin transactions must be reflected in their accounts and will be taxable on normal IT rules
- Chargeable gains: CT and CGT – if a profit or loss on a currency contract is not within trading profits or otherwise within the loan relationship rules, it would normally be taxable as a chargeable gain or allowable as a loss for CT or CGT purposes. Gains and losses incurred on Bitcoin or other cryptocurrencies are chargeable or allowable for CGT if they accrue to an individual or, for CT on chargeable gains if they accrue to a company.

FUTURE IMPLICATIONS

The tax treatments outlined in this brief are for tax purposes only. They in no way reflect on the treatment of cryptocurrencies for regulatory or other purposes.

Given the evolutionary nature of these cryptocurrencies, HMRC will issue further guidance as appropriate.

Issued 3 March 2014, available here on the HMRC website

Capital Gains Manual: CG12100

Introduction and computation: chargeable assets: Intangible assets: Cryptocurrencies

Updated 19 February 2018

Background

Use is being made of decentralised digital currencies, otherwise known as ‘cryptocurrencies’. Cryptocurrencies are an evolving area and work on determining their legal and regulatory status is on-going. Cryptocurrencies have unique characteristics and their holding and use in transactions cannot therefore be directly compared to any other form of investment activity or payment mechanism.

HMRC understands that cryptocurrencies generally operate via a peer to peer network, independent of any central authority or bank. All functions such as issue (creation), transaction processing and verification are managed collectively by this network. Transactions in cryptocurrencies are recorded in a shared public database called a ‘block-chain’. A new block can only be added to the chain when the answer to a complex cryptographic algorithm is solved. Participants in this activity are often known as ‘miners’.

Uses of cryptocurrencies

Cryptocurrencies were originally used as an alternative to centrally controlled currencies. The cryptocurrencies can be used to pay for goods or services at merchants where it is accepted. In the UK, there are already a number of outlets, including pubs, restaurants and internet retailers that accept payment by one or more cryptocurrencies.

More sophisticated investors were involved in the buying and selling of cryptocurrencies to realise short-term profits or gains. This led to the creation of exchange facilities for parties to trade their cryptocurrencies into other cryptocurrencies or into recognised national currencies such as sterling or US Dollars. The increasing acceptance and liquidity of cryptocurrencies has meant that they may also be held as a longer-term investment.

Other uses of cryptocurrencies have been considered such as using them as tokens issued as consideration for investment in a business. This process is known as an 'Initial Coin Offering' or ICO. Factors such as the number of tokens initially available and their price may be determined by the offer or (often a company) in advance. The advent of ICOs has also led to the creation of facilities to make ICOs easier to operate.

Depending on the facts, a transaction may be so highly speculative that it is not taxable or any losses relievable. For example gambling or betting wins are not normally taxable and gambling losses cannot normally be offset against other taxable profits (CG12602).

It is also possible that the profits of a transaction of cryptocurrency will be charged to Income Tax or Corporation Tax. TCGA92/S37 and TCGA92/S39 will apply as normal in those circumstances (CG14300P).

HMRC will continue to monitor the current and developing uses of cryptocurrencies and the block-chain technology that underpins them. Guidance may need to be amended to reflect these developments or changes in the regulatory environment in which cryptocurrencies operate.

As cryptocurrencies are not recognised national currencies, transactions in which they function as consideration given or received are 'barter transactions'. There is guidance on barter transactions at CG78310: this guidance is written in terms of non-sterling currency but is applicable to cryptocurrencies.

Cryptocurrency as an asset

Each cryptocurrency operates according to a pre-defined and collectively agreed set of rules. As such each case will need to be considered on the basis of its own individual facts and circumstances. The relevant legislation and case law will be applied to determine the correct tax treatment.

Cryptocurrencies are intangible so in order to be an asset for TCGA purposes a cryptocurrency will need to have the following characteristics:

- It must be something which is capable of being owned and
- Its value must be capable of being realised.

For further guidance on these characteristics see CG12010.

Where the nature of the cryptocurrency means they are dealt in without identifying the particular unit of currency being sold then they should be pooled as per TCGA92/S104(3)(ii) (CG11820). If TCGA92/S104 (3)(ii) applies, then the holder of the cryptocurrency will have a

Single pooled asset for Capital Gains Tax purposes that will increase or decrease with each acquisition, part disposal or disposal.

Acquisition cost of cryptocurrencies

The ordinary rules at TCGA92/S38 apply to cryptocurrencies (CG15150P). It is particularly important to consider whether any expenditure that has been incurred is on the asset (CG15161).

In some cryptocurrencies a new unit of that cryptocurrency is produced when a new block is attached to the block-chain. Expenditure incurred to create and add a block to a block-chain may not be expenditure incurred on the cryptocurrency that is produced at the same time. Each cryptocurrency will need to be considered on the basis of its own individual facts and applying the relevant legislation and case law.

Sometimes there is a disagreement about the rules that should govern an existing cryptocurrency leading to a split and the creation of one or more new cryptocurrencies. The acquisition cost of the new cryptocurrency will depend on how the new cryptocurrency is distributed. Where each holder of the 'old' cryptocurrency is given an equivalent amount of the 'new' cryptocurrency then TCGA92/S43 may apply to apportion an appropriate amount of the acquisition cost of the 'old' cryptocurrency to the 'new' cryptocurrencies that the person acquires (CG15230).