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2022 UK Crypto Tax Guide

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<https://www.btcc.com/en-US/academy/research-analysis/crypto-tax-uk-crypto-tax-guide-2022>

U.K. citizens that invested or dealt with crypto over the last year may be required to pay taxes on their trades. Here's what you need to know. This article will explain how crypto is taxed in the United Kingdom and how to prepare for the crypto tax season.

In the United Kingdom, tax season starts on April 6 and runs until April 5 of the following year. If you're submitting a self-assessment, you might have to pay some of your bills by July 31. While the dates might be easy to remember, U.K. tax advice around crypto can quickly become complicated.

Like many tax jurisdictions, Her Majesty's Revenue Service (HMRC) did not create new laws to tax crypto assets. Instead, HMRC has, since 2018, issued guidance on how to wrap the existing tax code around crypto. Its guidance outlines how cryptocurrencies are not considered currency or money, but property.

The advice has been updated several times since then, and in March 2021 the HMRC compiled its advice into a manual. In 2022, the tax department shed light on how to report taxes on decentralized finance (DeFi) staking and lending.

Using HMRC's advice, it's your unenviable job - or more likely, your accountant's - to determine the tax liabilities created by events like mining, trading and complicated DeFi protocols.

For individuals (as opposed to businesses), the U.K. tax guidance for crypto is split between capital gains and income. Whenever you make money from selling crypto, it's likely that HMRC will charge you for capital gains taxes - just like how you pay taxes on profits from stock trading. If you've earned crypto from activities like working for a decentralized autonomous organization (DAO) or from mining, you'll pay income tax and national insurance on your profits. If your total income or capital gains for the year are below certain thresholds, you might not have to pay any tax. And you don't have to pay any taxes for simply holding crypto.

When do U.K. Citizens Need to Pay Crypto Tax?

- **Buying and selling crypto:** If, come tax day, you've sold your crypto for more than you bought it, you'll probably have to pay capital gains tax on the profit. If you lost money through trading, such losses could minimize your capital gains tax bill. Note that swapping cryptocurrencies will also trigger a capital gains taxable event, as it involves selling your crypto to other investors or liquidity pools. In "exceptional circumstances," such as if you're trading huge amounts of crypto, HMRC will consider you a trader and ask you to pay income tax on trading instead of capital gains taxes.
- **When you're paid in crypto:** No matter which cryptocurrency you're paid in, or who pays you, you'll have to pay income tax and national insurance contributions.
- **Mining and validating:** If your mining operation is minor – say, just one computer that mines bitcoin in your spare time – HMRC will treat you as a hobbyist who should pay income tax on your gains. If it looks like you're running a mining business, count your mining income toward your trading profits.
- **Airdrops:** Airdrops are not taxed as income, so long as you receive them without doing anything in return, and so long as you don't receive them as part of a trade or from mining. If you've earned airdropped tokens as a reward for doing something, you'll have to report it as income. When an individual sells their tokens, that will likely trigger a capital gains taxable event.
- **Crypto you inherit:** Under U.K. tax law, HMRC treats cryptocurrencies as property.
- **DeFi protocols:** DeFi taxes get a little complicated, and each protocol is different. If you lend or stake tokens, the HMRC might treat it as a capital gains disposal – even though you still control the token. That's unless you know the return when you started staking or lending – then it's still revenue. If the DeFi protocol pays you, it's income. Various other factors, like whether your returns are paid as a one-off (probably capital gains) or recur (income), and

whether the loan is long term or short term, affect how DeFi is treated under U.K. tax law.



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How Much U.K. Crypto Tax You Need to Pay

If you will report the money you made from crypto as income, it'll count towards your income tax; bands range between 0% and 45%. For England, Wales and Northern Ireland, see the table below. Scotland adds another two bands: a 19% starter rate and a 21% intermediate rate.

Taxable income	Rate of tax in England, Wales and Northern Ireland
£0 to £12,570	0%
£12,571 to £50,270	20% (basic rate)
£50,271 to £150,000	40% (higher rate)
£150,000+	45% (additional rate)

You'll also have to contribute to national insurance - the U.K.'s social security pot. National insurance changes on whether you're employed or self-employed, and how much you earn. The taxes range from 2% to 12%.

For capital gains, the first GBP 12,570 of profit is tax free for everyone. If you pay a higher rate of income tax, you'll pay a flat fee of 20% on gains thereafter. If you pay a basic-rate income tax, capital gains taxes depend on how much you've earned. To work out how much you need to pay, take your total taxable gains and deduct your tax-free allowance of GBP 12,300. You'll pay 10% on gains within the basic income tax bracket, and 20% tax on figures greater than that.

How to Prepare for U.K. Crypto Tax Season

- Keep track of all of your wallets and record in which protocols you've staked money. When trading, make sure to keep enough money aside to fulfill your tax obligations. Remember the value of the crypto, in terms of GBP, when you report your taxes.
- Set calendar alerts for tax day and give yourself enough time to prepare.
- Consider hiring an accountant. Crypto taxes can quickly become complex, particularly for novel DeFi protocols, and accountants can help you save money and avoid fines. If you're registered as a sole trader, accountancy costs are marked as a business expense, too.
- Look at crypto tax software. Koinly, TokenTax and CoinTracker are among the more popular sites that help you stay on top of your crypto taxes. They help you scrape data from exchanges and DeFi protocols, and calculate your final tax bill. They can't replace accountants.
- Submit your tax return self-assessment. This needs to go directly to the HMRC. You can fill it out online yourself, or have your accountant submit it on your behalf.

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