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Cryptoassets Manual

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CRYPTO10100 - Introduction to cryptoassets: what are cryptoassets

Cryptoassets (also referred to as 'tokens' or 'cryptocurrency') are digital representation of value that relies on a cryptographically secured distributed ledger or similar technology to validate and secure transactions.

While all cryptoassets use some form of Distributed Ledger Technology (DLT) not all applications of DLT involve cryptoassets. Further information on DLT is at CRYPTO10200 (https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto10200).

There are different types of cryptoassets, which work in different ways. The main types of cryptoasset include:

Exchange Tokens

Exchange tokens are intended to be used as a means of payment and are also becoming increasingly popular as an investment due to potential increases in value. The most well-known token, bitcoin, is an example of an exchange token.

Utility Tokens

Utility tokens provide the holder with access to particular goods or services on a platform, usually using DLT. A business or group of businesses will normally issue the tokens and commit to accepting the tokens as payment for the particular goods or services in question. In addition, utility tokens may be traded on exchanges or in peer-to-peer transactions in same way as exchange tokens.

Security Tokens

Security tokens provide the holder of a security token particular rights or interests in a business, such as ownership, repayment of a specific sum of money, or entitlement to a share in future profits.

Stablecoins

Stablecoins are another prominent type of cryptoasset. The premise is that these tokens minimise volatility as they may be pegged to something that is considered to have a stable value such as a fiat currency (government-backed, for example US dollars) or precious metals such as gold.

How HMRC Treats Cryptoassets

The tax treatment of all types of tokens is dependent on the nature and use of the token and not the definition of the token.

HMRC does not consider cryptoassets to be currency or money. This reflects the position previously set out in the Cryptoasset Taskforce report (https://www.gov.uk/government/publications/cryptoassets-taskforce).

On its own, owning and using cryptoassets is not illegal in the UK and does not imply tax evasion or any other illegal activities.

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