

HMRC internal manual

Cryptoassets Manual

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(/hmrc-internal-manuals/cryptoassets-manual/updates)

CRYPTO61211 - Decentralised Finance: Lending and staking: Income tax: Making a DeFi loan: Introduction

As explained at CRYPTO61130
(<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61130>), a lender/liquidity provider may earn a return from the activity of making Decentralised Finance (DeFi) loans. The Income Tax treatment of the return received by the lender/liquidity provider will depend, in part, on whether their activities form part of a trade. Much like when a person buys and sells cryptoassets, HMRC expects that individuals will only be carrying on a trade involving the making of DeFi loans in exceptional circumstances (see CRYPTO20250
(<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto20250>)).

The relevant factors for consideration when determining whether an individual has a trade involving the making of DeFi loans would be similar to

those applied to transactions in shares, securities and other financial products, the guidance for which can be found at [BIM56800 \(https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim56800\)](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim56800).

Treatment where a trade is carried on

If an individual is considered to be carrying on a trade involving the making of DeFi loans/staking, then the activity that falls within the scope of that trade will be subject to Income Tax under Section 5 of the Income Tax (Trading and Other Income) Act 2005 (“ITTOIA 2005”). Income Tax will take priority over Capital Gains Tax and apply to the profits (or losses) of the trade.

If there is a trade involving cryptoassets, those assets may potentially be held as either trading stock or as investment assets outside of the trade. Consideration will need to be given as to whether there have been any appropriations to or from trading stock. For further guidance on appropriations to and from trading stock, see [BIM33630 \(https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim33630\)](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim33630).

Treatment where a trade is not carried on

If a trade is not carried on by an individual, or the activity which generates the return falls outside the scope of any trade, then the making of a DeFi loan/staking may give rise to a disposal of a chargeable asset (see [CRYPTO61600 \(https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61600\)](https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61600)). Where this is the case, Capital Gains Tax will apply to the disposal.

However, in exchange for making a DeFi loan/staking, the lender/liquidity provider will sometimes receive a reward for providing those services. For example, a lender of tokens may charge the borrower an agreed rate of return for the period of the lending. This return may be subject to Income Tax rather than Capital Gains Tax.

Guidance pages CRYPTO61212

(<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61212>) – CRYPTO61214 will help determine how the return received by the lender/liquidity provider should be treated.

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