HMRC internal manual

Cryptoassets Manual

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CRYPTO61213 - Decentralised Finance: Lending and staking: Income tax: Making a DeFi loan: Amount Chargeable to Income Tax

The miscellaneous income sweep-up provisions will only subject the return (see CRYPTO61130 (https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61130)) received by the lender/liquidity provider and not the repayment of the principal to Income Tax. The repayment of the principal will be a capital transaction (see CRYPTO61620 (https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto61620)).

The return earned by the lender/liquidity provider will be a non-cash receipt. The amount to be charged under sections 687-689 ITTOIA 2005 is the money's worth of the receipt (see BIM100150 (https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim100150)). This will be the pound sterling value of the tokens received by the lender.

In some cases, the trading and miscellaneous income allowance may apply. For further guidance please see BIM86000 (https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim86000).