HMRC internal manual

Cryptoassets Manual

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CRYPTO61674 - Decentralised Finance: Lending and staking: Chargeable Gains: Examples: Example 4: loan of tokens to a platform in exchange for liquidity tokens

Jack wishes to provide liquidity to a Decentralised Finance (DeFi) lending platform. He holds:

- 100 token A. These are in a section 104 pool with a total acquisition cost of £100.
- 100 token B. These are in a section 104 pool with a total acquisition cost of £50.

For more information about section 104 pools see CRYPTO22200 (https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto22200).

On 01/06/20XX, Jack transfers 10 token A and 5 token B to the DeFi lending platform. The DeFi lending platform transfers a liquidity token to Jack. At the time of this exchange the token A are valued at

£1.00 each, the token B are valued at £0.60 each. The liquidity token is valued at £15.00 each.

Jack decides that a just and reasonable basis for apportioning the value of the liquidity token is in proportion to the market value of the tokens he disposes of. The total market value of the tokens he disposes of is £10 (10 token A x £1 each) plus £3 (5 token B x £0.60 each) equals £13.

Jack's Chargeable Gains (CG) computation of his disposal of his token A is as follows:

.	**.**	**£**
Consideration	Liquidity token - £15 x 10 / 13	12
Allowable costs	Section 104 pool – £100 x 10 / 100	(10)
Gain	.	2

Jack's section 104 pool for token A will be adjusted as follows:

Date	**Quantity of tokens**	**Allowable costs (£)**
Opening balance	100	100
01/06/20XX	(10)	(10)
Closing balance	90	90

Jack's CG computation of his disposal of his token B is as follows:

.	**.**	**£**
Consideration	Liquidity token - £15 x 3 / 13	3

.	.	£
Allowable costs	Section 104 pool – £50 x 5 / 100	(3)
Gain	.	0

Jack's section 104 pool for token B will be adjusted as follows:

Date	**Quantity of tokens**	**Allowable costs (£)**
Opening balance	100	50
01/06/20XX	(5)	(3)
Closing balance	95	47

Jack will be treated as having acquired the liquidity token for the total market value of the token A and token B that Jack transfers to the DeFi lending platform. This is £10 (10 token A x £1 each) plus £3 (5 token B x £0.60 each) equals £13.

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