



7 May 2026

CryptoUK
Formal House
60 St George's PI
Cheltenham GL50 3PN

Submitted by email: digitalassets@hmrc.gov.uk

Dear HMRC

Response to Call for Evidence - Taxation of Stablecoins (the “Paper”)

CryptoUK (“we”) and its members welcome the opportunity to comment on the Call for Evidence regarding HMRC’s approach to the taxation of stablecoins.

CryptoUK is the UK’s leading self-regulatory trade association representing the cryptoasset sector. Our members comprise over 150 of the leading companies across the sector and across the UK. Many of our members are also international and engage with regulators and policies on a global basis.

We have provided detailed answers to each question posed in the Paper within the Appendix. We seek to offer pragmatic and relevant observations about, and suggestions in response to the content within the Paper. However, at the outset, we would like to highlight some of the most important issues with the potential to impact our members, arising from the Paper:

- **Overarching principle:** Tax outcomes should follow the economic substance of the activity rather than the technology of the token. This principle underpins each of our recommendations.
- **Cost-benefit framing:** Reform recommendations apply a cost-benefit view to the taxation of stablecoins across three dimensions - Exchequer net receipts (which are minimal could even be negative given FX-path-dependence); the administrative and enforcement burden (borne by HMRC, taxpayers, and the intermediary advisory community); and compliance complexity, where reforms should ease rather than amplify the friction taxpayers already face in being compliant in a crypto context. Each recommendation is directed at reducing cost across these dimensions while preserving the substantive tax outcomes the overarching principle requires.
- **Stablecoin definition:** The regulatory definition of qualifying stablecoin provides a suitable starting point for the scope of any tax changes. While the definition itself is FCA territory, tax scope should follow economic substance and needs to deliver three outcomes: provide coverage to both sterling and non-sterling stablecoins, apply to all widely traded stablecoins, and remove taxpayer uncertainty through an HMRC-published list of qualifying stablecoins kept under regular review.

- **CGT for individuals:** We recommend a transaction-level no-gain/no-loss treatment on disposals of qualifying stablecoins, preserving cost-basis tracking for downstream chargeable activity. Multiple drafting routes can deliver this outcome - including extension of the DeFi consultation framework's no-gain/no-loss treatment to ordinary stablecoin disposals, a statutory carve-out through a rewrite of s.251 or s.252 TCGA 1992, and the s.21(1) confirmation route for sterling stablecoins. CryptoUK does not regard any single route as essential and would support a mechanism that fits cleanly with the existing CGT architecture, integrates with the ongoing DeFi consultation framework, and produces no chargeable gain or loss on disposals of peg-stable qualifying stablecoins.
- **Income Tax for individuals:** We recommend retaining the existing miscellaneous income classification, with a targeted reform to recognition timing (receipt-based rather than earned-date). Substantive equivalence with bank interest is already broadly delivered through the £1,000 Trading and Miscellaneous Income Allowance. The miscellaneous classification accommodates the heterogeneous reality of stablecoin yield - interest-like lending returns alongside staking rewards, liquidity provision rewards, and other protocol-level distributions - within a single uniform framework, whereas re-classification as interest would fit only the interest-like portion and leave the bulk of stablecoin yield in miscellaneous regardless.
- **Corporation Tax for companies:** We recommend a statutory deeming provision bringing qualifying stablecoins within the loan relationship rules in Part 5 CTA 2009. The reform is principle-aligned (a currency-substitute taxed as the underlying currency would be) and practically efficient (delivers substantive equivalence with fiat interest treatment through an existing administrative vehicle). The sukuk precedent in Part 6 Chapter 6 CTA 2009 is the established template for deeming provisions of this kind.
- **DeFi / liquidity pool interaction:** The transaction-level no-gain/no-loss outcome is compatible with the deeming structure and basis-flow-through approach proposed in the DeFi consultation framework. This compatibility delivers capital gain exemption for routine payment activity, where the basis is consumed alongside the asset; and cost-basis preservation where stablecoins are exchanged for other chargeable assets, with embedded FX gains travelling through to the acquired asset. Asset-level approaches would not deliver this compatibility and would require bespoke drafting work to handle the interaction with the chargeable framework.
- **Tax / accounting standards convergence:** Accounting standards are not converging at uniform pace across jurisdictions (FASB has signalled an update to stablecoin accounting that moves away from intangible asset classification in some key use cases; IFRS and UK GAAP are likely to remain on the existing framework for several years). The tax framework should not wait for convergence - a deeming reform operating independently of accounting classification is a strategic advantage.
- **Differential treatment for individuals and companies is principle-coherent:** The same principle (interest-like returns taxed equivalently to actual interest in their substantive outcome) is preserved in both contexts. The mechanism differs because the practical fit differs - for individuals, the existing miscellaneous income classification already broadly delivers the substantive outcome; for companies, the deeming reform is needed to align corporate treatment with fiat interest.

Thank you for your continued engagement both prior to and during the call for evidence. We look forward to continuing to work with you on these proposals. If you have any questions in relation to our responses and/or it would be helpful to discuss any of these matters further, please do not hesitate to get in touch.

Appendix

Consultation Questions:

1. Are there any further points of background in relation to stablecoins and the stablecoin market which would be relevant to this Call for Evidence?

Three points of background bear on the rest of this response:

First, the use case for stablecoins is primarily payments - for goods, services, and on-chain activities including DeFi and borrowing - rather than investment. Stablecoins are also used as a holding asset within the cryptoasset ecosystem, including as a ramp into and out of other cryptoassets and as a temporary store of value between active positions. They are not generally held for capital appreciation. The current CGT treatment, which captures every disposal as a chargeable event, is poorly aligned with both of these use cases and creates the difficulties developed in our response to Question 2.

Second, USD-pegged stablecoins dominate the global stablecoin market: approximately 99% of stablecoins by market value are referenced to USD¹, and member expectations are that this share will not materially shift in the medium term, even as GBP-denominated stablecoins enter the UK market. The economic activity that the tax framework needs to address is therefore largely USD-denominated activity, which has direct implications for the scope of any reform (developed in our response to Question 12).

Third, the UK economy benefits from USD-denominated stablecoin activity in ways that parallel the benefits from USD-denominated payment-card spending by tourists and from USDC-denominated transactions taking place in the UK. A reform framework that treats non-sterling stablecoins on equivalent terms to sterling stablecoins is therefore consistent with the broader benefit of this activity to UK businesses.

2. To what extent does the current CGT treatment: cause administrative or other difficulties for individuals, and/or deter the use of stablecoins, for example in retail payments?

The current CGT treatment produces outcomes that are driven by the technology of the token rather than by the economic activity being undertaken. This creates a compliance burden disproportionate to the activity involved for little tax gain to the Exchequer, and is already changing user behaviour. Every disposal is a chargeable event regardless of whether a gain or loss arises, so a sterling stablecoin maintaining 1:1 parity carries the same per-transaction record-keeping, pooling, and computation obligations as a non-GBP stablecoin or any other cryptoasset, including a volatile speculative asset. The compliance cost is fixed across cases while the underlying taxable gain is, in most cases, zero or negligible. The Exchequer's position is also FX-path-dependent: chargeable disposals capture FX gains and losses against sterling, so net receipts could be positive or negative over time. Set against the significant administrative cost borne by both HMRC and taxpayers, net receipts from the current treatment are not reliably positive.

¹ DeFiLlama stats taken 5 May 2026 - \$322B market cap, 99.4% USD peg type. GBP stablecoins £31M market cap.

On administrative difficulties, the individual must record the date of each disposal, identify the acquisition cost under the pooling and matching rules, record proceeds in sterling, compute the gain or loss, and retain records for HMRC enquiry. For a sterling stablecoin, this process reliably produces a nil or negligible result. For a non-sterling stablecoin such as USDC or USDT the computational mechanics are the same, but the FX movement between sterling and the reference currency over the holding period produces a gain or loss on each disposal even though the economic activity recorded - a payment or settlement - remains routine. Users typically view a USD stablecoin as USD itself, so the existence of a sterling-denominated gain or loss on a transaction where the dollar amount is unchanged is not anticipated and is often discovered only at the point of preparing the return. The marginal burden is limited where the individual is already preparing crypto tax records, but is most acute for those whose only crypto exposure is stablecoin use for payments, where the obligation exists in isolation of any offsetting investment activity. The interaction with the s104 pool and the same-day and 30-day matching rules compounds the position: a user paying with a stablecoin cannot predict at the point of spend what tax consequence the disposal will produce, in contrast to paying in fiat where the act of spending carries no associated tax computation, tracking or reporting. Even where the disposal is expected to produce no meaningful gain, fees on acquisition and disposal can generate small computational adjustments that must still be captured.

On deterrence, individuals using USDC or USDT as a settlement layer for freelance payments, e-commerce receipts, or cross-border transfers are either unknowingly creating hundreds of taxable events or, once advised of the consequences for tax, tracking and reporting, likely to abandon stablecoin use in favour of conventional FX. A self-employed individual receiving USDC to settle consultancy invoices and converting to sterling weekly faces the same record-keeping obligation as an active crypto trader, with no corresponding gain to justify it. Retail use through payment cards linked to stablecoin balances shows the same pattern: users are not initially deterred because they are unaware that card spend constitutes a disposal, but on becoming aware they typically change behaviour or withdraw from the product. The practical effect is that compliant retail use is unworkable for ordinary users, which either results in non-compliance or drives users out of the asset class.

In summary, CryptoUK members' experience indicates that the current CGT treatment creates an administrative regime disproportionate to the economic activity it captures, produces deterrence of retail payment use, and renders compliant behaviour practically unavailable to the users at whom a regulated stablecoin framework is principally directed.

3. Are there any difficulties caused by the current Income Tax treatment of stablecoins, and to what extent do those difficulties deter their usage?

The current Income Tax treatment of stablecoins varies according to the circumstances in which they are received. Stablecoins received as employment income, trading or self-employment revenue, or consideration for goods and services take the Income Tax classification of the underlying activity, in the same way as the equivalent receipt in fiat. Stablecoin yield (returns from lending, savings products and DeFi protocols) is generally treated as miscellaneous income under the sweep up provisions in s.687-689 ITTOIA 2005. The difficulties identified below tend to arise where the procedural framework that applies to a particular stablecoin receipt diverges from the framework that would apply to economically equivalent income outside the cryptoasset wrapper.

For stablecoin yield, the miscellaneous income classification under ITTOIA 2005 is applied uniformly across heterogeneous receipt types - lending returns that are economically interest-like, staking rewards, liquidity provision rewards, and other protocol-level distributions - regardless of the economic nature of the underlying activity. The classification is broadly workable for individual investors: it is relatively simple in operation, and the £1,000 Trading and Miscellaneous Income Allowance keeps taxpayers below that threshold out of self-assessment in the absence of other filing obligations. Where difficulty arises, it tends to reflect a divergence between the taxpayer's view of stablecoin yield as economically equivalent to bank interest and the procedural framework that the miscellaneous income classification entails. For taxpayers whose stablecoin yield exceeds the trading allowance, or who already file self-assessment for other reasons, the individual must self-identify each receipt, convert it to GBP at the date of receipt, and retain records to support the return. The architectural distinction from bank interest sits in the third-party reporting framework rather than in the GBP-conversion or record-keeping mechanics, and is developed in our response to Question 8.

A further source of friction arises at the intersection of Income Tax and CGT rather than within the Income Tax regime itself. Where an individual is paid in a stablecoin like USDC and does not convert to fiat immediately, holding and subsequently converting the stablecoin creates a capital gain or loss event on disposal. The equivalent position in foreign fiat, holding a USD balance in a non-sterling bank account, does not create a further tax charge or capital loss due to the Finance Act 2012 changes at s.252 TCGA 1992. The administrative requirement to convert receipts to GBP on receipt parallels that required for foreign fiat; the disparate treatment arises downstream, in the CGT treatment of the held balance, and is attributable to the cryptoasset classification rather than to the Income Tax rules themselves.

An issue, raised in the original DeFi consultation process, concerns the timing of income recognition against receipt. Under current practice, income is recognised when earned rather than when received or claimed, which creates an inherent FX gain or loss on stablecoins where the earned date and the actual receipt date differ. Because the earned amount is converted to GBP and treated as taxable at the earlier date, any subsequent movement produces a downstream CGT computation. This is not unique to stablecoins, but applies with particular force where the underlying value is designed to be stable, so any variance is attributable to the reporting regime rather than to the asset itself.

On deterrence, the effect is uneven across the income range. Below the trading allowance, the regime does not require a self-assessment return and the deterrent effect is accordingly limited. Above that threshold, the practical effect is to impose a filing obligation on individuals receiving stablecoin interest that they would not otherwise face if the same economic return arrived through a conventional savings product, which is likely to deter engagement with stablecoin yield products where the compliance burden is disproportionate to the income involved.

In summary, CryptoUK members' experience indicates that the current Income Tax treatment of stablecoins does not create difficulties of the same order as the CGT regime, but introduces procedural friction in the reporting of yield and interest, creates unjustified downstream CGT exposure where stablecoin receipts are held rather than immediately converted, and gives rise to an FX timing mismatch between the recognition and receipt of income. These difficulties are likely to deter retail engagement with stablecoin yield

products above the trading allowance threshold, and to deter acceptance of stablecoin payment more generally where the holding-period CGT exposure becomes material.

4. Currently, how do companies typically account for stablecoins in practice? Please specifically include references to USDT and USDC, 2 of the major stablecoins in the current market, as well as other common stablecoins used by companies.

The accounting treatment of stablecoins by companies reflects that stablecoins are operationally used as cash or liquidity substitutes but are not generally accounted for as cash; and neither IFRS nor UK GAAP contains a stablecoin-specific standard against which they can be classified. In the absence of bespoke guidance, companies apply existing standards to the facts of each case, which produces a range of classifications in practice.

Under IFRS and UK GAAP, the classifications commonly adopted by companies holding stablecoins are intangible assets, inventory, or financial assets, depending on the use case to which the stablecoin is put and the legal rights attached to the token. Financial asset treatment is supported where the stablecoin carries a direct contractual claim on the issuer for redemption at a fixed value. Intangible asset treatment is supported where the token represents a digital holding without a corresponding issuer obligation. Inventory treatment is supported where the company holds stablecoins in the ordinary course of business for onward sale or as trading stock. Each is a defensible classification on the right facts, and practice varies across companies depending on the characteristics of the stablecoin and the purpose for which it is held.

The analysis does not differ materially between USDC, USDT, and other common fiat-referenced stablecoins, each of which is subject to the same framework. In operational terms, companies typically use these tokens interchangeably as a liquidity layer for settlement, on-chain transfers, or working-capital purposes, but the accounting presentation must be determined by reference to the applicable classification rather than the operational use. A company using USDC or USDT as a near-cash liquidity buffer will, in most cases, be required to present those holdings under one of the classifications above rather than as cash or cash equivalents, with corresponding effects on balance sheet presentation, impairment testing, and revaluation. The absence of a cash-equivalent treatment, even for stablecoins maintaining 1:1 parity with a reference currency, is a feature of the classification framework rather than a reflection of the economic substance.

In summary, the absence of a stablecoin-specific accounting standard means companies must apply general IFRS or UK GAAP classifications to instruments that operationally function as cash-like liquidity, with the resulting accounting presentation determined by the specific facts (legal rights, business model) rather than by the operational use. This classification heterogeneity feeds directly into the Corporation Tax treatment described in our response to Question 5.

5. How are stablecoins typically treated in practice for Corporation Tax purposes, including where the stablecoin is itself lent or borrowed by a company?

Corporation Tax treatment of stablecoins follows the accounting classification described in our response to Question 4: the position is determined by the accounting treatment of the holding rather than by its operational function. The three classifications adopted in

practice - intangible asset, inventory, or financial asset - each carry distinct Corporation Tax consequences, and the treatment of any given stablecoin holding follows from the classification its facts support.

Where the stablecoin is held as an intangible asset, disposals produce a chargeable gain or loss in the same way as other intangible assets outside the Part 8 CTA 2009 intangible fixed assets regime, with the gain or loss computed by reference to the spot value at acquisition and disposal. Where the stablecoin is held as inventory, gains and losses are dealt with as part of trading income. Where the stablecoin is held as a financial asset, the treatment turns on whether it also qualifies as a loan relationship under Part 5 CTA 2009; in most cases it does not. The typical issuer-holder structure does not satisfy the strict gateway tests in CTA 2009 s.302-303, which require both a money debt and a transaction for the lending of money: the holder acquires the stablecoin in exchange for fiat at par rather than by lending money to the issuer, and the issuer's redemption obligation is commonly subject to conditions, restrictions, or service-character features that take it outside the strict definition of a money debt. The default Corporation Tax position for the bulk of corporate stablecoin holdings is therefore a chargeable gain or loss treatment computed against the accounting carrying value, recognised on each movement.

Where the stablecoin is itself lent or borrowed by a company, the treatment compounds. The lending transaction is typically analysed as a disposal of the original tokens by the lender at spot value, with the acquisition of a contractual right to repayment as consideration, and a mirrored treatment on the borrower's side. The stock-lending relief in TCGA 1992 s.263B, which neutralises the disposal limb for qualifying securities, does not extend to stablecoin lending, so the disposal is recognised in full. Yield accruing under the arrangement is taxed as miscellaneous income rather than interest, because the lending arrangement does not itself satisfy the loan relationship gateway tests. On repayment, the lender reacquires the tokens at the then-current spot value, producing a further disposal-and-reacquisition cycle. The borrower's deductibility for yield paid is correspondingly limited: a deduction is available only where the borrowing is part of a trade and the cost meets the wholly-and-exclusively test for trading expenses, the symmetric loan relationship deduction that would apply to fiat interest being unavailable. Specific arrangements (collateralised or uncollateralised, fixed-term or revolving, on-platform or OTC) produce variations on this analysis, but the common feature is that the lending and borrowing of stablecoins routes around the loan relationship rules from both sides.

In summary, the structural feature of the current Corporation Tax treatment is that corporate stablecoin holdings sit outside the loan relationship rules even though stablecoins economically function as currency-substitutes that those rules already handle correctly for fiat. Lending and borrowing arrangements compound this mismatch by producing repeated disposal-and-reacquisition cycles, asymmetric deductibility, and yield routed through the miscellaneous income rules rather than as interest. The practical difficulties this produces are addressed in our response to Question 7, and the reform opportunities in our response to Question 14.

- 6. To what extent is it possible in practice for a stablecoin: to be a loan relationship, but not be accounted for as a financial asset under IFRS 9 (or equivalent) and/or to not be a loan relationship, but to be accounted for as a financial asset under IFRS 9 (or equivalent)?**

Misalignment between loan relationship classification and IFRS 9 financial asset classification (or its FRS 102 equivalent) is possible in both directions and occurs in practice, because the two frameworks apply different tests. Loan relationship classification under Part 5 CTA 2009 requires both a money debt and a transaction for the lending of money (CTA 2009 s.302-303). IFRS 9 financial asset classification, by contrast, requires a contractual right to receive cash or another financial asset, with subsequent measurement determined by the contractual cash flow characteristics test and the company's business model in holding the instrument. The first focuses on the legal character of the underlying obligation; the second on the cash flow profile and the holding model.

The more common direction of misalignment is a stablecoin that is a financial asset under IFRS 9 but is not a loan relationship. A contractual right to redeem at par may support classification as a financial asset under IFRS 9; however, the outcome will still depend on the precise legal rights and structure of the instrument. By contrast, the loan relationship analysis is subject to separate gateway tests, as discussed in our response to Question 5. The bulk of corporate stablecoin holdings sit in this position: a financial asset for accounting purposes, taxed as a chargeable asset rather than within the loan relationship rules. The application of either test to a specific holding turns on its contractual structure and the company's business model, with the consequence that economically similar stablecoins can produce different classifications across companies, and corporate taxpayers must assess the position for each holding rather than relying on a uniform treatment.

The reverse direction - a holding that satisfies the loan relationship gateway tests but is not an IFRS 9 financial asset - is possible in particular structures, for example bespoke intercompany arrangements that are structurally a loan of money where the principal is denominated in stablecoin tokens. These cases occur in practice but are narrower than the common direction.

The structural nature of this misalignment bears on a broader question implicit in this consultation: whether Corporation Tax treatment of stablecoins should continue to track accounting classification, or whether it should be set independently. Accounting standards are not converging at uniform pace across jurisdictions: the US FASB has signalled an update to stablecoin accounting treatment that moves away from intangible classification, while IFRS and UK GAAP are likely to remain on the existing framework for several years. Companies preparing under different standards would, in the meantime, face different Corporation Tax outcomes on economically equivalent holdings. A tax framework that waits for accounting standards to converge would operate on an increasingly anachronistic basis throughout that period.

Beyond the convergence question, the accounting framework does not accurately capture the economic character of stablecoins in the most common classification: an intangible-asset treatment frames as a non-financial asset an instrument that operationally functions as currency-substitute liquidity, and the tax treatment that follows from it inherits that mischaracterisation. There is also no general principle that Corporation Tax treatment must track accounting; existing rules already deviate from accounting classification where economic substance requires it (for example, the alternative finance arrangements in Part 6 Chapter 6 CTA 2009). The alternative, set out in our response to Question 14, is a statutory deeming provision that determines the Corporation Tax treatment directly, independently of the accounting classification.

7. Are there any difficulties caused by the current Corporation Tax treatment of stablecoins, and to what extent do difficulties deter companies from using them?

The Corporation Tax framework described in our response to Question 5 gives rise to practical difficulties for companies using stablecoins as an operational payments or treasury instrument rather than as an investment, because stablecoins are taxed on the basis of their accounting classification rather than on the basis of their operational function as cash-like liquidity.

The most common scenario encountered by SMEs is the receipt of payment in USDC or USDT and holding the tokens briefly before converting to sterling. Under the current treatment, this routine transaction creates an acquisition at spot rate on receipt, a disposal at spot rate on conversion, a Corporation Tax chargeable gain or loss on any movement between those two points, and a record-keeping obligation for each transaction. The same applies where companies use stablecoins as a treasury tool for moving funds or managing liquidity, with the additional feature that exposure accumulates across high-frequency operational use and is computed for each movement rather than on an aggregate or periodic basis. For a company using stablecoins as a functional payments rail or treasury layer rather than for investment purposes, this generates Corporation Tax exposure and accounting complexity on activity that is operationally indistinguishable from moving funds between currency bank accounts. The disparity between the tax outcome for a routine stablecoin settlement and the tax outcome for the economically equivalent movement between a GBP and a USD bank account is a feature of the classification framework rather than a reflection of the nature of the activity being undertaken.

On deterrence, the practical effect is that SMEs either avoid stablecoin receipts altogether, or route them through the personal accounts of directors or owners. The latter response is the more concerning: processing company receipts through an individual's personal account can create its own tax and compliance issues, including benefit-in-kind exposure, director's loan account implications, and distortion of the company's accounting records. The personal-account route is also often not freely chosen. Many crypto-adjacent UK companies face restricted access to traditional banking services and to the fiat on-ramps and off-ramps provided by regulated banks and payment institutions, so personal accounts may be the only practical route through which stablecoin receipts can be converted and managed. The current Corporation Tax treatment therefore interacts with existing banking constraints to push stablecoin activity into routing arrangements that compound rather than resolve the compliance exposure for the companies concerned. The reform opportunities are set out in our response to Question 14.

8. For both individuals and companies, what problems could be caused by contrasting treatment of interest-like returns generated from stablecoins and actual interest on fiat currency debt?

For individuals, the £1,000 Trading and Miscellaneous Income Allowance provides allowance protection broadly equivalent to the Personal Savings Allowance at the lowest end of the income range. The architectural divergence sits in the reporting framework rather than in the allowance. Bank interest is reported to HMRC via third-party data from banks and building societies under existing statutory reporting obligations, and the

allowance therefore interacts with a stream of independently reported income. Stablecoin yield currently sits outside that infrastructure, requiring the taxpayer-side compliance path described in our response to Question 3 in place of third-party reporting.

For companies, the equivalent issue arises through the accounting and Corporation Tax framework set out in our responses to Questions 4 and 5. Fiat interest is taxed under the loan relationship rules as interest income, with corresponding deductibility where it is paid, and FX and fair value movements on the underlying instrument are captured within the same rules, producing a single net loan relationship credit or debit that feeds into the Corporation Tax computation. Stablecoin yield, by contrast, is taxed as miscellaneous income rather than as interest, because the typical issuer-holder structure does not satisfy the strict gateway tests for a loan relationship; and the stablecoin holding itself is taxed by reference to its accounting classification, producing a separate stream of chargeable gains or losses on price movements during the holding period. The practical effect is two parallel streams - miscellaneous income on yield and chargeable gains or losses on the holding - in place of the aggregated loan relationship treatment that applies to economically equivalent fiat interest.

The contrast also has a strategic policy dimension. Holders of UK gilts benefit from exemption from tax on interest received, and stablecoin-wrapped sovereign debt instruments could extend that exemption into a technologically accessible format, expanding the pool of potential gilt holders, increasing demand, and potentially reducing the government's marginal cost of debt issuance. The broader principle that tokenised representations of an underlying asset should be taxed as the underlying asset is taxed could usefully be applied to tokenised gilts and corporate bonds more generally, to encourage use and broaden investor options without reopening the classification debate on each instrument.

In summary, CryptoUK members' experience indicates that contrasting treatment of stablecoin yield and fiat interest has a minimal impact on individuals, creates a substantive difference in the tax computation for companies, and a strategic narrowing of the policy options available to the government in relation to tokenised sovereign and corporate debt. The reform opportunities are set out in our responses to Questions 13 and 14, and the position on whether interest-like returns should be treated as actual interest is set out in our response to Question 16.

9. Do you consider there to be any potential difficulties with the treatment of stablecoins in respect of taxes other than CGT, Income Tax and Corporation Tax?

Beyond CGT, Income Tax, and Corporation Tax, two further tax-related areas warrant attention from HMRC in the treatment of stablecoins: the VAT position on stablecoin receipts, and the practical compliance burden produced by the Making Tax Digital (MTD) framework as its qualifying thresholds are reduced.

On VAT, cryptoassets used as a means of exchange are treated as equivalent to currency for VAT purposes, which is workable for businesses already operating in stablecoins. An explicit confirmation of that treatment for stablecoins specifically, including confirmation of the practical mechanics (in particular, the basis for converting stablecoin receipts to sterling for VAT computation and reporting) would be welcomed. Targeted guidance on these points by HMRC would give VAT-registered businesses the confidence to invoice in or accept payment in stablecoins without carrying perceived risk on the VAT position.

On Making Tax Digital, the forthcoming reduction in the qualifying income threshold from £50,000 in the current tax year to £20,000 of property or self-employment income from 6 April 2028 will bring a materially larger number of individuals holding cryptoassets within the MTD regime. Under the current MTD architecture, crypto transactions cannot be reported by attaching a PDF or equivalent summary record; the individual must instead input every disposal transaction separately into the final sweep-up return, unless software providers develop a mechanism to collate and add transaction data through an API or plug-in integration with the main commercial software products. This MTD interface compounds the disposal-volume burden described in our response to Question 2, since the routine stablecoin payment activity that generates hundreds of taxable events under current rules must be reported transaction by transaction rather than in summary. As the qualifying threshold falls, the number of taxpayers caught will increase, and the per-taxpayer burden will grow with it. The issue has been flagged to HMRC and to the MTD team as a live concern.

10. Does the regulatory definition of qualifying stablecoin provide a suitable starting point for the scope of any potential tax changes?

The regulatory definition referenced in the call for evidence - that a qualifying stablecoin 'seeks or purports to maintain a stable value in relation to a particular fiat currency, and fiat currency or other assets are held for the purpose of maintaining a stable value relative to the reference currency' - provides a suitable starting point for the scope of any potential tax changes. The two characteristics it identifies, stable value and asset backing, determine the economic nature of the instrument: a token that maintains a stable value relative to a fiat currency through asset backing operates economically as a currency proxy rather than as a speculative cryptoasset. This is consistent with the principle that has informed our responses to earlier questions: the tax treatment of stablecoins should match the economic substance of the activity rather than the technology of the token.

The substantive question of how a qualifying stablecoin is defined for regulatory purposes - the precise tests for stable value, the composition and segregation of reserves, the contractual nature of the redemption right - is appropriately within the FCA's regulatory perimeter. For tax purposes, it is the nature of the economic activity that should drive the definition rather than the regulatory mechanics by which it is delivered. Three outcome characteristics are critical:

First, the definition must be applicable to both sterling and non-sterling stablecoins. With approximately 99% of stablecoins by market value referenced to USD, a tax framework limited to GBP-denominated qualifying stablecoins would have very limited practical utility for users and would not address the tax-on-payments issues raised in our responses to Questions 2 and 7, which apply primarily to USD-referenced instruments such as USDC and USDT. The non-sterling case is developed further in our response to Question 12.

Second, the definition must cover all widely traded stablecoins. Definitional refinements appropriate for the FCA's regulatory perimeter - for example, redemption mechanics that would disqualify USDT and other instruments that economically operate as stablecoins - should not be imported into the tax scope where the effect would be to narrow it beyond the economic substance.

Third, the definition must remove uncertainty for the taxpayer over what is in scope and what is not. This requires HMRC to publish a list of qualifying stablecoins, kept under regular review. The position should also be stable over time: subsequent FCA-level refinements driven by regulatory needs should not flow through into changes to tax scope where the underlying economic substance of the instrument is unchanged. Without an authoritative and stable list, the burden of definitional qualification falls on individual taxpayers and their advisers on a transaction-by-transaction basis, which would re-introduce the compliance complexity the broader reform is intended to address.

In summary, CryptoUK members' experience indicates that the regulatory definition is a suitable starting point for the scope of tax changes because it captures the economic substance of the instrument rather than its technological form. The three outcome characteristics above - applicable to both sterling and non-sterling stablecoins, covering all widely traded stablecoins, and removing taxpayer uncertainty through an HMRC-published list - are what matters for the tax-purposes definition; the underlying definitional mechanics are appropriately a matter for the FCA. The further questions about practical alternatives to segregation-based tax treatment are addressed in our response to Question 11.

11. What would be the preferred option(s) for reforming the tax treatment of stablecoins in respect of CGT for individuals, and why?

The CGT treatment of stablecoins for individuals is best reformed by reference to the principle established in our response to Question 10: the tax treatment should match the economic substance of the activity rather than the technology of the token. Applied to CGT for individuals, this points to a desired outcome: routine peg-stable transactions in qualifying stablecoins should not generate chargeable gains or losses, while cost-basis tracking is preserved for downstream chargeable activity, in particular where stablecoins enter DeFi and liquidity pool arrangements as set out in our response to Question 18.

This outcome is delivered through a transaction-level no-gain/no-loss treatment on disposals of qualifying stablecoins. Operating at the transaction level rather than at the asset level is critical, as removing stablecoins from the chargeable assets framework altogether would leave them without a base cost to flow through into LP-pair structures, lending positions, and other downstream chargeable activity, requiring bespoke transformation rules to reconstitute a base cost on each entry into a chargeable context. A transaction-level approach preserves base-cost mechanics throughout, with disposals of qualifying stablecoins producing no gain or loss by calculation rule.

Several drafting routes can deliver this outcome:

First, the DeFi consultation framework already proposes a no-gain/no-loss treatment for cryptoasset transactions in DeFi contexts; an equivalent new provision could be drafted for routine stablecoin disposals more generally, providing a coherent pair of measures that operate together.

Second, a statutory carve-out through a rewrite of s.251 or s.252 TCGA 1992 - an exemption from the chargeable-gains framework that delivers a no-gain/no-loss outcome - is also conceptually available; however, this would need to avoid causing other unintended consequences to the existing application of those provisions and could complicate future legislative updates in relation to stablecoins.

Third, for sterling stablecoins specifically, the existing analytic in s.21(1) TCGA 1992 may already deliver the outcome without legislative change: chargeability is conditioned on 'value capable of being realised', and a sterling stablecoin with mandatory 1:1 parity and liquid reserve backing has no gain above face value to realise by structural design. Confirmation by HMRC of that analysis would deliver the outcome for sterling stablecoins through interpretive guidance alone. A hybrid combining the s.21(1) confirmation route for sterling with a transaction-level no-gain/no-loss provision for non-sterling stablecoins is therefore also available.

The choice between these drafting routes carries real complexity. Each requires careful consideration of how it interacts with the existing CGT rules (cost-basis flow, negligible-value claims, anti-avoidance perimeter), with the ongoing DeFi consultation framework, and with the broader CGT treatment of foreign currency, which is itself heterogeneous (as set out in our response to Question 12). There is no single template that would align the treatment of USD-denominated stablecoins with the treatment of USD as a currency, and identifying the appropriate drafting route requires a level of detailed analysis that this response does not fully develop. CryptoUK's position is that reform should deliver a transaction-level no-gain/no-loss outcome on routine stablecoin disposals. The choice of drafting mechanism is appropriately HMRC's, and CryptoUK would welcome the opportunity to engage in further consultation on the mechanism itself.

A no-gain/no-loss outcome can also work alongside the existing reporting concession in s.8C TMA 1970. For taxpayers whose only crypto activity is in qualifying stablecoins, every transaction produces no gain or loss by calculation rule, so the transactions are not treated as chargeable disposals and do not contribute to the £50,000 reporting proceeds requirement.

In summary, CryptoUK members' experience indicates that CGT reform should deliver a no-gain/no-loss outcome on routine stablecoin disposals, with cost-basis tracking preserved for downstream chargeable activity. Multiple routes can deliver this outcome, each with consequential complexity that warrants further consultation. CryptoUK does not regard any single route as essential and would support a mechanism that fits cleanly with the existing CGT architecture, integrates with the ongoing DeFi consultation framework, and produces no chargeable gain or loss on disposals of peg-stable qualifying stablecoins.

12. Should the scope of any changes to the CGT treatment be extended to include non-sterling denominated stablecoins? Why or why not?

The scope of any changes to the CGT treatment should be extended to include non-sterling denominated stablecoins. This follows directly from the principle established in our responses to Questions 10 and 11: the tax treatment should match the economic substance of the activity rather than the technology of the token. A USD-referenced stablecoin used to maintain USD value performs the same economic function as USD itself, and the case for taxing that function differently solely because of the legal wrapper of the holding is difficult to sustain.

The existing CGT treatment of foreign currency holdings for individuals already creates a hierarchy of treatment that lacks a coherent policy rationale. USD held at a deposit-taking bank is exempt under TCGA 1992 s.252; USD held with a non-bank such as a

CASS-regulated brokerage sits in legal limbo, with the application of s.252 acknowledged as ambiguous; and USD held as a USDC position is unambiguously chargeable to CGT. These are economically equivalent USD stores of value, and the differential treatment is determined by the legal form of the holding rather than by any difference in economic character. Extending the reform to non-sterling stablecoins offers HMRC the opportunity to address this hierarchy in a structurally coherent way, by establishing a wrapper-neutral framework that would simultaneously resolve the long-standing gap in CGT treatment of foreign currency held outside a deposit-taking bank.

This direction is consistent with the policy analysis already conducted by the Office of Tax Simplification, whose Second CGT Review (May 2021) acknowledged the disproportionate burden imposed by the current CGT rules on foreign currency instruments and proposed simplified computation methods, reflecting a recognised policy consensus that incidental FX movements on currency-function holdings should not generate the same compliance obligations as capital asset disposals. Extending CGT reform to qualifying non-sterling stablecoins would carry that policy direction into the cryptoasset framework.

Restricting the reform to sterling-denominated stablecoins only would have the practical effect of leaving the most widely used instruments in the cryptoasset ecosystem, principally USDT and USDC, outside the reform's scope. As we set out in our response to Question 10, the dominance of USD-referenced stablecoins in the market means that a sterling-only reform would address only a small fraction of the activity it is intended to reach and would render the reform commercially marginal.

The drafting route is appropriately for HMRC to determine. The routes set out in our response to Question 11 are available for non-sterling stablecoins. Two considerations apply in this context: USD-pegged stablecoins dominate the market, so the choice of drafting route should account for the heterogeneous existing CGT treatment of USD as a currency identified above; and the interaction with the ongoing DeFi consultation framework (set out in our response to Question 18) operates predominantly through USD-pegged stablecoins. The hybrid option - s.21(1) confirmation for sterling combined with a transaction-level no-gain/no-loss provision for non-sterling stablecoins - remains attractive where HMRC wishes to preserve the s.21(1) analytic for sterling while extending the no-gain/no-loss outcome to non-sterling stablecoins.

In summary, CryptoUK members' experience indicates that extending CGT reform to non-sterling stablecoins is the right approach: as a matter of principle, the economic substance of holding a USD-referenced stablecoin is materially identical to holding USD, and as a matter of practical consequence, a sterling-only reform would leave the bulk of the stablecoin market outside its scope. The extension is also consistent with the Office of Tax Simplification's existing analysis and presents an opportunity to bring coherence to a treatment hierarchy that currently differentiates between economically equivalent USD holdings on the basis of the legal wrapper alone.

13. Are there any changes to the Income Tax treatment of stablecoins that you believe the government should be considering?

The Income Tax treatment of stablecoins gives rise to two reform threads that the government should be considering. The first is a recalibration of the timing of income recognition, addressing the FX-timing mismatch identified in our response to Question 3.

The second is the underlying classification question of whether stablecoin lending returns should continue to be miscellaneous income or be re-classified as interest, building on the contrast identified in our response to Question 8.

The first reform is a move from the date on which income is earned to the date on which it is received to the holder's wallet or exchange, or otherwise claimed. As set out in our response to Question 3, the current rules recognise stablecoin yield as miscellaneous income when earned (or when they are entitled to receive it, it is credited to an account in their name and it is within their power to withdraw it) rather than when received or claimed. Where the earned date and the actual receipt date differ, the earned amount is converted to GBP and treated as taxable at the earlier date, with any subsequent movement producing a downstream CGT computation. An individual cannot reliably identify, at the point of earning, what tax position the income will produce by the time it is received and convertible, because the FX timing variance is built into the calculation by the recognition rule itself. A move to receipt-based recognition would simplify the compliance burden for taxpayers and advisers, since the taxable amount would be calculated on a single GBP value rather than on an earned-date GBP value with an FX adjustment chain attached, and would allow taxpayers to identify, at the point of receipt, the tax owed on that income so that it can be set aside in fiat form.

The second reform is the underlying classification question. Stablecoin lending returns are currently treated as miscellaneous income under the sweep-up provisions in s.687-s.689 ITTOIA 2005 rather than as interest, because stablecoins are not money and are generally not debt; the consequence is that lending sterling and lending a sterling-pegged stablecoin produce different tax outcomes because of the legal classification of the instrument. CryptoUK's position, set out more fully in our response to Question 16, is that the existing miscellaneous income classification should be retained for individuals. The timing reform can be advanced independently of the outcome of the classification question.

14. If you consider that reform is needed for the taxation of stablecoins by companies, what would be the preferred option, and why?

CryptoUK's preferred reform of the Corporation Tax treatment of stablecoins is a statutory deeming provision that brings qualifying stablecoins within the loan relationship rules in Part 5 CTA 2009. The deeming approach treats the stablecoin holding itself as a loan relationship for Corporation Tax purposes - not the yield component in isolation - with the consequence that all economic incidents of holding and using the stablecoin (interest-like yield, FX movements, fair value movements, lending and borrowing arrangements) flow through the loan relationship rules rather than through the accounting-classification-driven framework described in our response to Question 5.

Substantive equivalence with the treatment of fiat interest, which our response to Question 16 establishes is not currently delivered for companies, follows from the deeming approach because the existing loan relationship framework already taxes the economically identical fiat case correctly. A foreign currency bank deposit is itself a loan relationship: the bank stands as debtor for a money debt to the depositor, interest is recognised over the period, FX movements flow through the loan relationship FX regime, losses are non-trading loan relationship deficits with the broader utilisation flexibility that affords, and deductibility on the borrower's side mirrors the lender's taxability. A stablecoin held to perform the same currency-substitute function should be taxed in the

same way, and bringing it within the loan relationship rules delivers each of these substantive components in a single move.

The deeming approach also addresses the difficulties identified in our response to Question 7. Routine operational and treasury use of stablecoins by SMEs would no longer generate per-movement chargeable gains and losses, because the underlying instrument would be taxed within the loan relationship framework rather than as a chargeable asset. The structural pull towards routing through directors' personal accounts, which compounds compliance exposure for companies facing restricted access to traditional banking, is correspondingly reduced.

For companies, the deeming approach is both the direct expression of the principle that tax should follow economic substance - a currency-substitute taxed as the underlying currency would be - and the route with the better practical fit. The loan relationship framework already operates correctly for the economically identical fiat case and requires no new substantive rules; the reform's complexity sits at the perimeter (which stablecoins, which arrangements) rather than in the substantive treatment, which is whatever the existing rules already deliver. This coincidence is the inverse of the position for individuals, where the direct expression of the principle (re-classification of stablecoin yield into the bank interest framework) is structurally difficult to deliver cleanly.

A statutory deeming provision is a familiar drafting move within the loan relationship framework. CTA 2009 already includes deeming provisions that bring economically debt-like instruments within loan relationship scope where the strict gateway tests would not otherwise be satisfied, most prominently the treatment of alternative finance arrangements (such as sukuk) under Part 6 Chapter 6 CTA 2009, which deems profit-share returns from Sharia-compliant instruments into loan relationship treatment because their economic profile is interest-like. An equivalent provision for qualifying stablecoins would extend the same drafting pattern to instruments whose economic profile is currency-debt-like. The scope of inclusion can be tied to the regulatory definition of qualifying stablecoin discussed in our response to Question 10, which captures the economic substance the reform is intended to address.

In summary, CryptoUK members' experience indicates that the preferred reform of Corporation Tax treatment for stablecoins is a statutory deeming provision that brings qualifying stablecoins within the loan relationship rules. The reform is principle-aligned because it taxes a currency-substitute as the underlying currency would be taxed, and practically efficient because it delivers substantive equivalence with the fiat case through an existing administrative vehicle that already operates correctly.

15. Should there be an additional accountancy-based limitation on what stablecoins are included in any reforms, or specific rules to address amounts recognised in OCI? Why or why not?

Additional accountancy-based limitations on the scope of stablecoin reforms would be undesirable. Accounting standards are designed to determine recognition, measurement and presentation in financial statements, not to define the policy perimeter of a tax reform. The Corporation Tax reform set out in our response to Question 14 is a statutory deeming provision that brings qualifying stablecoins within the loan relationship rules in Part 5 CTA 2009, and the reform deliberately decouples the Corporation Tax treatment from the accounting classification on the principle that accounting outcomes vary across

similar stablecoins (as discussed in our response to Question 6) and a tax framework that depends on those outcomes would import that variability into the tax position. The scope of inclusion is appropriately determined by the regulatory definition of qualifying stablecoins discussed in our response to Question 10, which captures the economic substance the reform is intended to address.

A limitation conditioning reform eligibility on a particular accounting classification - for example, only stablecoins accounted for as financial assets under IFRS 9 - would re-couple the tax treatment to the accounting framework that the reform deliberately moves away from. Similar stablecoins can end up with different accounting classifications depending on the contractual rights attached to the token and the company's business model in holding it, and accounting standards across jurisdictions are not converging at uniform pace. A tax framework conditioned on accounting classification would therefore deliver inconsistent outcomes across economically similar instruments and create a corresponding compliance burden on companies, which would have to assess the accounting status of each holding for each reporting period in order to determine the tax treatment.

On amounts recognised in other comprehensive income (OCI), specific rules would be appropriate only where they address a genuine timing mismatch that the existing rules do not resolve. The loan relationship rules in Part 5 CTA 2009 already contain provisions that bring fair value movements into the Corporation Tax computation regardless of whether they are presented in P&L or OCI in the accounts, so the general case is addressed by the existing framework. Where the deeming provision interacts with OCI presentation in ways the existing rules do not naturally accommodate, targeted rules could be drawn - but as a structural feature of the reform rather than as a general accountancy-based qualification.

16. For both individuals and companies, would it be preferable for interest-like returns to be treated in the same way as actual interest? Why or why not?

For individuals, CryptoUK recommends retaining the existing miscellaneous income classification and pursuing the targeted timing reform set out in our response to Question 13. Re-classification of stablecoin lending returns as interest would be the direct expression of the principle that interest-like returns should be taxed equivalently to actual interest, but the practical reach is narrow. Stablecoin yield is itself heterogeneous: lending returns are interest-like, while staking rewards, liquidity provision rewards, and similar protocol-level distributions are reward-like and would not qualify for re-classification into the bank interest framework in any event. Re-classification of the interest-like portion would therefore leave the bulk of stablecoin yield in the miscellaneous classification regardless, with limited net simplification benefit.

The existing miscellaneous income classification is already broadly aligned with the substantive outcome the principle calls for. The £1,000 Trading and Miscellaneous Income Allowance functions as a structural counterpart to the £1,000 Personal Savings Allowance: stablecoin yield within the trading allowance and bank interest within the PSA are both protected at the low end, and the substantive tax burden above the threshold is broadly equivalent. The differences lie in the surrounding reporting and timing architecture rather than in the substantive outcome, and the targeted timing reform set out in our response to Question 13 closes the FX-timing piece of the experiential gap,

without requiring stablecoin yield to be relocated into a classification that does not accommodate it cleanly.

Furthermore, the existing classification fits cryptoasset reporting practice: the trading allowance captures the aggregate of crypto income within a single allowance without the need to separate stablecoin receipts from other crypto yield, while re-classification would force a transition to the savings income reporting architecture, requiring taxpayers to retag and separate stablecoin receipts from other crypto income, total them separately for inclusion in the savings box, and resolve a source question for larger receipts where it is not immediately obvious whether the income belongs in the main SA100 or on the foreign pages. In addition, the miscellaneous income channel accommodates the partial-coverage reality of crypto reporting more naturally than the savings income architecture would: the trading allowance covers the aggregate of reported and unreported crypto income within a single £1,000 protection at the low end, while the savings income architecture is calibrated to a fully reported income stream and does not accommodate a partially reported one equivalently.

Re-classification would also be structurally difficult to deliver cleanly. The bank interest treatment is built around comprehensive third-party reporting under existing statutory obligations on banks and building societies. Comparable reporting cannot be made comprehensive for stablecoin yield because DeFi protocols, by their decentralised structure, cannot be brought within statutory reporting. Pushing stablecoin yield into the bank interest classification would therefore deliver an incomplete version of that classification, with structural reporting gaps that the existing bank interest treatment does not have. Additionally, the third-party reporting that supports bank interest is primarily an HMRC enforcement reference rather than a taxpayer compliance saving, with the individual taxpayer remaining obliged to record and report interest above the relevant allowance regardless of whether third-party reporting exists, leaving the taxpayer-side compliance obligations across the two regimes broadly comparable in any event. Re-classification would also extend the UK interest withholding regime to UK-resident payers of stablecoin yield, creating a compliance obligation that does not arise under the existing miscellaneous income classification. These structural difficulties compound the cost-benefit case for retaining the existing miscellaneous income classification.

For companies, the position differs because the substantive tax outcome is not already aligned. Stablecoin holdings fall outside the loan relationship rules and are taxed per movement as chargeable gains or losses against the accounting classification of the underlying instrument, with yield routed through the miscellaneous income rules rather than recognised as interest, producing a different timing and presentation profile from the loan relationship treatment of fiat interest (as set out in our response to Question 8). Re-classification of qualifying stablecoins themselves into the loan relationship rules brings the holding and the yield it generates into the existing administrative vehicle that already operates correctly for fiat interest, and is the appropriate route to deliver the substantive equivalence that the principle calls for. The Corporation Tax reform is set out in our response to Question 14.

In summary, CryptoUK members' experience indicates that interest-like returns should be taxed equivalently to actual interest in their substantive outcome. For individuals, the heterogeneity of stablecoin yield - interest-like lending returns alongside reward-like staking and liquidity provision distributions - is best accommodated within the existing miscellaneous income classification, which already broadly delivers substantive

equivalence with bank interest; the targeted timing reform set out in our response to Question 13 closes the FX-timing piece of the experiential gap. For companies, the substantive equivalence does not yet exist and re-classification of qualifying stablecoins into the loan relationship rules is the route to deliver it. In both contexts the principle is preserved, through whichever mechanism delivers the substantive outcome with the better practical fit.

17. To what extent are stablecoins used in liquidity pool arrangements? Please provide any estimates of the market share of lending and liquidity pool arrangements that involve stablecoins, including figures to support where possible.

Stablecoins are used extensively in liquidity pool arrangements and it is therefore not possible to implement changes to the tax position of stablecoins without considering the interaction with DeFi as set out in detail in our response to Question 18.

18. How should the treatment of cryptoasset loans and liquidity pools interact with the treatment of stablecoins? Would the proposed options in sections above create opportunities for tax avoidance involving lending and liquidity pools?

Stablecoin use is significantly weighted toward DeFi and liquidity pool activities, so the CGT treatment of stablecoins must be compatible with the framework being developed for cryptoasset loans and liquidity pools. Both the transaction-level no-gain/no-loss mechanism set out in our response to Question 11 and the DeFi framework governing the treatment of qualifying stablecoins entering lending and liquidity pools disregard the relevant disposal for CGT purposes, with cost basis carried through to the continuing position. The same basis-flow-through logic is followed, producing a coherent framework across the two.

A transaction-level no-gain/no-loss mechanism delivers the outcomes that are critical for the stablecoin treatment. For routine payments and conversions to fiat, a deeming approach disregards the disposal, with the basis consumed alongside the asset because there is no chargeable asset to carry it to. The user has spent the stablecoin without any chargeable gain or loss arising from FX movement on the holding, aligning the treatment with the foreign-currency analogue under TCGA 1992 s.252 for individuals. For exchanges into other chargeable assets - including non-stablecoin cryptoassets and LP-pair contributions - the cost basis flows through to the acquired asset under ordinary CGT mechanics, with any embedded FX gain or loss preserved in the new asset's base cost and recognised on the eventual chargeable disposal. This basis flow-through is what makes the transaction-level mechanism compatible with the DeFi consultation framework's deeming approach and with the broader chargeable-gains framework.

By contrast, an asset-level approach that removed qualifying stablecoins from the chargeable framework altogether would not deliver this compatibility. Cost basis cannot flow through an asset that is not within the chargeable framework, which has practical and drafting consequences. On the practical side, software providers would need to maintain parallel tracking for stablecoin holdings - exempt for ordinary tax purposes, but with the s104 pool and matching rules tracked behind the scenes for use when the stablecoin enters DeFi or other chargeable contexts - with manual transaction-level overrides required at the boundary between exempt status outside DeFi and chargeable behaviour inside it. On the drafting side, bespoke work would be required to reconstitute a base cost on each entry into chargeable structures, including the composition of base

cost in LP tokens containing both chargeable and exempt components, the handling of conversions where the consideration is a non-chargeable exempt asset, and the treatment of liquidation events in stablecoin-collateralised lending structures. Each is addressable in principle, but the cumulative drafting and compliance overhead is significant. The transaction-level no-gain/no-loss mechanism avoids this overhead by retaining the stablecoin's chargeable-asset status throughout, with basis flow-through delivered through ordinary CGT rules. This structural compatibility is one of the practical reasons set out in our response to Question 11 for preferring a transaction-level outcome.

On avoidance, the deeming structure preserves embedded gains in the typical case where stablecoin holdings are exited into other chargeable assets: cost basis flows through to the acquired asset under ordinary CGT mechanics, and any embedded gain is recognised on eventual disposal. Existing anti-avoidance rules, including the same-day and 30-day matching rules in TCGA 1992 and the general anti-abuse rule, continues to operate across the chargeable framework, and specific anti-avoidance provisions will appropriately form part of the substantive drafting work alongside the rules themselves. Specific scenarios meriting consideration include de-pegging events and stablecoin-to-stablecoin swaps where peg drift produces a real economic gain or loss. In both cases, the qualifying-stablecoin definition (set out in our response to Question 10) provides the natural perimeter, and the existing chargeable-gains rules pick up the case where the asset falls outside that definition.

In summary, CryptoUK members' experience indicates that the interaction between stablecoin treatment and DeFi/LP treatment is best delivered through a transaction-level no-gain/no-loss mechanism that is compatible with the deeming structure proposed in the DeFi consultation framework. This mechanism delivers the outcomes that are critical for the stablecoin treatment: no chargeable gain for routine payment activity, where the basis is consumed alongside the asset; and cost-basis preservation where stablecoins are exchanged for other chargeable assets, with embedded FX gains travelling through to the acquired asset and being recognised on eventual disposal. Asset-level alternatives would not deliver this compatibility and would require bespoke drafting work to handle the interaction with the chargeable framework. Anti-avoidance considerations are appropriately addressed through the substantive drafting work alongside the rules themselves. The choice of specific drafting mechanism is appropriately HMRC's, as set out in our response to Question 11.