s

d finance and wrapping

) treatment of decentralised finance
rypto tokens.

g with DeFi

oviders

rest and rewards

form of finance that is conducted without
nediary (peer-to-peer). DeFi apps, protocols and
uilt on the Ethereum blockchain.

DeFi environment. The most likely CGT events to
2. The most specific CGT event depends on the
ur DeFi arrangement. Some of the factors you will
whether:

other entity as part of the arrangement

s.

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Ask Alex for help

s established, you need to consider if the same
e type of asset on the same terms for other
en you won't be the sole beneficiary of any such

rowing with DeFi

se terms from traditional finance to describe their
, 'borrowing' and 'interest'. However, the DeFi use
ays reflect their common meaning, including for

orrowing' arrangements will result in a CGT event.
pens because beneficial ownership of the
because of the arrangement. The arrangements

asset for another crypto asset

asset for a right to receive an equivalent number
et in the future.

(and which one) happens to your crypto assets

s of the protocol

the protocol.

ppens if you transfer a fungible crypto asset (for
0 compliant token) to an address:

ce of the same fungible crypto asset.

e CGT event are equal to the market value of the
urn for transferring the crypto asset. This may be
ight.

apply to lending of shares and similar securities,
nding', don't apply to crypto asset 'lending'.

e of your crypto assets to determine if you make
s when a CGT event happens to the asset.

ent of cr o asset loan with ship

nt 100 Xcoin for $800, Sasha 'lends' 50 Xcoin
a rate of return of 1%.

contract, Sasha doesn't maintain beneficial
in that she has 'lent'.

inge in beneficial ownership of the crypto
ppens when Sasha 'lends' the Xcoin to the
ve a capital gain of $100 at the time of 'lending'

reatment when you lend to a DeFi

s for $1,000 and 'lends' them to a DeFi

ct are unclear about whether Mika retains
the 100 ZYX coins. The DeFi platform pools
'lends' at the same address as ZYX coins it
ders'.

le, a CGT event happens on Mika's ZYX coins
'loan'.

a has a right to receive 100 ZYX coins from the
e time. At the time Mika receives the right
le the initial 'loan'), each ZYX coin had a
a's right was valued at $900, so she has a
a's right has a cost base of $900.

'loan' is repaid and Mika's right to receive
DeFi platform is satisfied by the transfer of
that time the market value of each ZYX coin is
apital gain of $100. Mika now has acquired
st base of $1,000.

nd providers

gement where crypto assets are gathered and
rt contract. The use of liquidity pools facilitates
adds liquidit crypto asset trading.

s crypto assets to a liquidity pool to use for the
n exchange for depositing or contributing crypto
eceive new crypto assets or rights that represent
pool. Liquidity providers are rewarded with a
enerated from the liquidity pools they support.

n you deposit your crypto assets into the liquidity
from the CGT event are equal to the market
eceive in return for your deposited crypto assets.
asset or a right.

assets from the liquidity pool, a CGT event
et or a right received on the original deposit. The
CGT event equal the market value of the crypto

e of your crypto assets to determine if you make
s when a CGT happens to the asset.

nge of crypto asset through the

vider who deposits one EH to the XA liquidity
e one EH, she receives 20 XA tokens
of the liquidity pool.

e EH 3 years ago at a price of $2. The 20 XA
lue of $20 at the time of contribution.

nto the liquidity pool is a CGT event. Martha
. Martha may be eligible for the CGT 50%

Fi interest and rewards

u a reward that is a type of return or yield for
ed in the DeFi platform accounts. If you receive
m of a crypto asset from a DeFi platform you
ue of the crypto asset reward at the time of
me in your tax return.

ets are taxed similarly to interest income.

asset reward from DeFi platform

coin tokens valued at $10 per token through
ound Finance. The DeFi platform pays a rate
m of newly issued stablecoin tokens.

e the market value of the newly issued tokens
income in his tax return.

ig declares is $10. The cost base of the newly
arket value at the time Craig acquires them.

s

o asset that is tied to the value of another crypto
wrap it to receive an equivalent amount of the
et.

kchain (for example, Bitcoin) to be used on
example, Ethereum)

set of a certain standard to be represented as a
as creating a version of ETH that can be used

wrap and unwrap crypto assets. This guidance
nwrapping using a smart contract. A smart
ogram that automatically carries out a set of
be used to exchange a crypto asset for its

sets using a smart contract

that uses a smart contract, you send the original
let to the smart contract's address. The smart
d version of the crypto asset, which can be used
. The original crypto asset is locked at the smart

such as ETH, using a smart contract, CGT event
d the original crypto asset to the smart contract
ou no longer [control] that crypto asset through

this event are the market value of the wrapped
This will usually correspond to the market value of
the time it is sent to the smart contract.

st base of your wrapped crypto asset is the
l crypto asset at the time it was sent to the smart

atment when wrapping contracts
act

0,000. Four years later, Kal decides to wrap
H. Kal wraps 5 ETH by sending them to a
The smart contract creates 5 WETH and
et address.

H at the time of wrapping was $30,000. CGT
the ETH is sent to the smart contract. The
0,000, being the market value of the WETH
of the 5 ETH is $10,000

ain of $20,000 ($30,000 – $10,000) from
TH.

lds have a cost base of $30,000. This example
tform fees.

assets using a smart contract

ou unwrap a wrapped crypto asset, such as
alent amount of the original type of crypto asset,

hen the wrapped crypto asset is burnt under the

he market value of new crypto asset you receive
he first element of the cost base of your new
value of the wrapped crypto asset at the time it

atment when unwrapping crypto
t contract

stops using the 5 WETH and unwraps it to
is using the smart contract. The 5 WETH are
l at $28,000 are sent to Kal's wallet address.

when the ETH are burnt under the smart
oceeds from the event are $28,000, being the
l received at that time. The reduced cost base
000. As a result, Kal makes a capital loss of
000). The cost base of the 5 ETH that Kal
s example excludes any gas or platform fees.

Draft Taxation Determination TD 2026/D2 *Income
equences of using a smart contract to wrap and*

ownload

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