

HMRC internal manual

Cryptoassets Manual

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CRYPTO10250 - Introduction to cryptoassets: exchanges and exchange fees

An exchange is an online platform where people who wish to own cryptoassets can:

- exchange their fiat (government backed) currency for a particular token;
- exchange tokens for other tokens; and/or
- convert tokens into fiat currency.

There are a large number of exchanges offering a range of services. They can be:

- custodial (offering a wallet as part of their service),
or
- non-custodial (not offering a wallet).

Using an exchange usually involves creating an account, which is a contractual agreement based on specific terms and conditions. Account holders can

then propose/request and undertake transactions via the exchange.

The exchange will try to complete these transactions by matching the account holder's requested transaction with the requested transactions of other account holders. The exchange may hold some tokens and/or fiat currency itself to execute transactions and act as a 'market maker' in a limited sense.

Exchange fees are an important area when considering a person's tax position. It is necessary to consider the relevant tax as the rules for deductions for miscellaneous income and capital gains tax are restrictive. There are different types of exchange fees:

- Deposit fees are charged when fiat currency is deposited with the exchange. There may also be conversion fees if the fiat currency isn't supported by the exchange.
- Trading fees are the predominant income source for exchanges. These will normally form a percentage of the trade being requested and will be payable regardless of whether the trade is to acquire or dispose of tokens.
- Withdrawal fees may be applied for withdrawing fiat currency but may also apply to the withdrawal of tokens.

A person may only be entitled to a deduction for a minority or even none of the exchange fees depending on the type of fees incurred. Guidance on the deduction of fees for Capital Gains purposes is at CRYPTO22150 (<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto22150>) for individuals and CRYPTO41300 (<https://www.gov.uk/hmrc-internal-manuals/cryptoassets-manual/crypto41300>) for companies.

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