

HMRC internal manual

Cryptoassets Manual

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CRYPTO61678 - Decentralised Finance: Lending and staking: Chargeable Gains: Examples: Example 8: lender's loan of an ascertainable quantity of tokens is satisfied, the value of the tokens decreased

Chris holds 1,000 tokens with a total acquisition cost of £1,500. On 30/09/20XX, Chris enters into an agreement with Amy to loan Amy 100 tokens for 12 months. The loan agreement includes that Amy will pay a return of 5% at the end of the loan. At the time the loan is made, the tokens have a sterling value of £1.50 each.

When the loan is satisfied by Amy, Chris will treat the tokens received as the 5% rate of return on the loan as miscellaneous income that will be subject to tax on income .

Chris's disposal is for a right to receive a future quantity of tokens. The future quantity of tokens is

105 so the future quantity of tokens is known. This means that section 48(1) Taxation of Chargeable Gains Act (TCGA) 1992 will apply. Section 48(1) TCGA 1992 brings the full quantity of tokens into the Chargeable Gains (CG) computation straight away.

The tokens will need to be brought into the CG computation at their sterling value at the time of the disposal. The consideration in the computation will therefore be 105 tokens multiplied by £1.50 to give total consideration of £150.

Section 37(1) TCGA 1992 excludes from the computation an amount which is chargeable to tax on income. The sterling value of the 5 tokens representing the 5% rate of return on the loan is therefore excluded from the CG computation.

Chris's CG computation of the initial disposal will be as follows:

		£
Consideration	S48 TCGA 1992 – 105 x £1.50; less S37 TCGA 1992 – 5 x £1.50	150
Allowable costs	S104 - £1,500 x 100 / 1,000	(150)
Gain	.	0

Chris's section 104 pool will be adjusted as follows:

Date	Quantity of tokens	Allowable costs (£)
Opening balance	1,000	1,500
30/09/20XX	(100)	(150)

Date	Quantity of tokens	Allowable costs (£)
Closing balance	900	1,350

On 29/09/20XX, Amy satisfies the loan with a transfer of 105 tokens to Chris. At the time the loan is satisfied, each token is worth £1.20.

Chris treats the receipt of 5 of the tokens as miscellaneous income for tax purposes. This means that $5 \text{ tokens} \times £1.20 = £6.00$ is subject to tax on income.

The sterling value of the remaining 100 tokens will be a capital sum that is derived from Chris's right to receive a future quantity of tokens. Chris's CG computation of the disposal of his right is as follows:

		£
Consideration	105 x £1.20; less S37 TCGA 1992 – 5 x £1.20	120
Allowable costs	Value of right to receive a future quantity of tokens	(150)
Loss	.	(30)

Chris receives 5 tokens which are treated as miscellaneous income, so they are acquired at £1.20 each. Chris also receives 100 tokens derived from his right to receive a future quantity of tokens, which are also acquired at £1.20 each. Chris's section 104 pool will be adjusted as follows:

Date	Quantity of tokens	Allowable costs (£)
Opening balance	900	1,350

Date	Quantity of tokens	Allowable costs (£)
29/09/20XX	+5	+6
.	+100	+120
Closing balance	1,005	1,476

Overall Chris pays tax on income on his receipt of 5 tokens at £1.20 each, and realises a loss of £30, which is the value by which his 100 tokens had decreased by the time the loan was satisfied by Amy.

Chris's section 104 pool also reflects the decreased token value of (£24) (5 tokens x £1.20 = £6, 100 tokens x £0.30 = (£30)) for any future disposals that he may make.

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