Converting Cryptocurrency into Cash

As cryptocurrencies gain investor confidence, how much is really known about it, and what are the implications to consider when converting crypto to cash?

James Turner, Director, Turner Little

The cryptocurrency market has developed at a rapid pace over the last few years. For consumers, cryptocurrencies can offer a cheaper and faster peer-to-peer payment option compared with traditional money services, as well as enhanced privacy and protection.

As these currencies continue to gain momentum and investors generally appear confident about the opportunities associated with cryptocurrency, how much do you really know about it, and are you aware of the implications if you decided to convert your crypto to cash?

Taxation and crypto

Those who invest and deal in cryptocurrencies often believe that their transactions are not discoverable by tax officials. They unfortunately are mistaken. Whilst identities of the owners of crypto assets are not usually held in an accessible way, HM Revenue & Customs has procedures in place which allows them to identify assets through the use of blockchain forensic tools, and pursue enquiries where they believe tax has been under declared.

If you are working and being paid in crypto, you have to pay income tax on it. Similarly, if you sell it or swap it for anything, you are liable for Capital Gains Tax on any rise in price since you bought it.

There are of course ways in which you can mitigate Capital Gains Tax liabilities. Losses can sometimes offset gains, and you can use your Capital Gains Tax allowance to sell your gains over time, tax free. There are also some specific allowable costs that you can deduct from your gains including transaction fees, advertising, contracts and valuation. If gains are used for personal expenditure outside the UK, they also do not attract Capital Gains Tax.

The future of money

Most governments around the world have realized that digital is the inevitable future of money. The move towards digital transactions has been taking place for years, but perhaps unsurprisingly has been accelerated by the pandemic.

There is clearly a growing demand for digital assets, and HMRC guidance on cryptocurrency states that investors must calculate gains and keep detailed records for each trade.

It is important to realize that crypto gains are potentially liable to Capital Gains Tax, so investors need a robust plan to ensure their tax liabilities are managed efficiently.

If you're looking to find out how to manage your digital assets and discuss your unique requirements, get in touch with a member of Turner Little's team today.

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James Turner, Director at Company Formation Specialists, Turner Little, has a proven track record in helping clients maximize their assets in creative and bespoke ways. He is directly responsible for sales and marketing, with considerable specialist knowledge of UK and offshore banking.

James doesn't just have drive in the world of business. In his spare time, he has a passion for fast cars and boats.