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Mr Robert Smith
Lead Official
HM Revenue & Customs
United Kingdom

6 May, 2026

Re: Open Call for Evidence - Taxation of Stablecoins

Dear Mr Smith:

We appreciate the opportunity to respond to HMRC's Call for Evidence on the Taxation of Stablecoins and the HMRC's willingness to to engage with industry on what are genuinely complex and fast-evolving issues. Stablecoins sit at the intersection of payments, treasury, and digital asset innovation, and the current consultation reflects a forward-looking and pragmatic approach to ensuring that the tax system keeps pace with global market developments.

We set out below our responses to each of the Call for Evidence questions, drawing on Coinbase's experience as a global market leader in stablecoins and the digital asset ecosystem.

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Executive Summary:

From Coinbase's perspective, qualifying, fully-backed fiat-referenced stablecoins function in practice as money, especially for payments, settlement, and cash management rather than as speculative assets. Below is a summary of our observations:.

- **Compliance and Administrative Burden:** Current rules may create a disproportionate compliance burden when stablecoins are used for everyday payments and remittances. For sterling-denominated qualifying stablecoins, there should be no meaningful gain relative to sterling by design. For non-sterling-denominated stablecoins, any gain or loss on payment use should generally reflect foreign currency movements against sterling rather than a deliberate investment return. Requiring users to identify, value, and potentially report large numbers of such transactions risks pushing ordinary payment activity into transaction-by-transaction monitoring and over-reporting that does not match the underlying tax at stake. We therefore support a payments-focused CGT simplification for qualifying stablecoins, with appropriate scope for widely used non-sterling-denominated stablecoins.

- **Yield, Payments and Income Tax:** There is value in confirming that straightforward stablecoin lending yield is treated consistently with conventional interest, including for source, withholding tax, and treaty analysis, and in providing practical guidance on valuing and reporting stablecoins received as payment, and therefore earned as income, for goods and services.

- **Corporation Tax and Accounting:** In practice, tax outcomes for companies tend to follow accounting. We are supportive in principle of treating qualifying stablecoins as money or money debts for Corporation Tax purposes, so that operational holdings and straightforward lending sit within the existing loan relationship framework, with normal corporate foreign currency rules applying to non-sterling positions. Within that approach, it would be particularly helpful to confirm that using a qualifying stablecoin purely as an intermediate settlement asset in a payment or foreign currency flow does not create additional taxable gains beyond ordinary foreign currency and fee income, and to clarify how accounting classifications interact with the Corporation Tax rules.

Question 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?

From a market participant perspective, several features of fiat-referenced stablecoins are relevant background to this Call for Evidence.

- <u>Stablecoins as payment instruments</u>: Fiat-referenced, fully-backed stablecoins are increasingly used as payment, settlement, and cash-management instruments rather than as speculative investments. A common payment structure involves using a stablecoin as an intermediate asset to facilitate a cross-border payment — where fiat currency is converted into a stablecoin at one end of the transaction and converted back into a different fiat currency at the other. This structure, sometimes referred to as a “stablecoin sandwich”, is increasingly used for cross-border payments and remittances because it can be faster and cheaper than traditional correspondent banking. Whether balances are held intraday or over longer periods as a stable store of value for transactional and treasury purposes, these holdings are functionally cash-like. The economic objective is to preserve nominal value in the reference currency and to effect a payment or currency conversion, not to take price exposure to the stablecoin itself.

- <u>Bifurcation of corporate usage</u>: Corporate usage of stablecoins is increasingly bifurcating into two distinct categories: (a) operational flows (e.g., cross-border payments, treasury routing, and settlement) which are economically closer to money and (b) treasury or yield-generating strategies (e.g., lending stablecoins to protocols for yield) which are closer in character to investment activity. The same token can therefore operate as a cash equivalent in a payments context and as a yield-bearing cash instrument in an investment context. Any tax framework should take into consideration these use cases as the economic substance and policy rationale for each differs.

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

The current CGT treatment of stablecoins can create significant administrative difficulties for individuals, particularly where stablecoins are used for everyday payments and remittances rather than as investment assets. The fundamental issue is not that individuals are realizing meaningful gains. By design, qualifying sterling-denominated stablecoins do not appreciate in value, and for non-sterling-denominated stablecoins, any gain or loss on payment use should generally reflect foreign currency movements against sterling rather than a deliberate investment return. As such, under the UK's self-assessment regime, every disposal may technically need to be identified and reported, even where the gain or loss is negligible and, in the case of qualifying sterling-denominated stablecoins, nil.

For an individual making frequent stablecoin payments (e.g., using stablecoins for remittances or day-to-day spending) this could result in dozens or hundreds of reportable disposals each year, with no (or virtually no) economic gain or loss. The compliance burden of tracking, valuing, and reporting such transactions is disproportionate to the economic activity involved and will deter individuals from using stablecoins as mainstream payment instruments when bank transfers or card payments involve no equivalent compliance obligation.

We consider this administrative burden to be one of the most significant practical barriers to retail adoption of stablecoins as payment instruments and addressing it — for example through a payments-focused exemption or de minimis threshold as discussed in our response to Question 11 — would meaningfully support the government's objective of enabling stablecoins to function as mainstream payment instruments.

Question 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 principal difficulty is uncertainty rather than any fundamental incompatibility between stablecoins and existing rules. That uncertainty can create compliance complexity for both individuals and intermediaries, and may deter some users from engaging with stablecoin-based products and services.

- <u>Uncertainty about the treatment of yield</u>: As noted in our response to Question 16, there is currently no clear guidance on how yield earned from stablecoin lending arrangements should be treated for Income Tax purposes. Where taxpayers are uncertain whether returns are taxable, how they should be characterized, or when they should be reported, the practical response is often either over-reporting or under-reporting — neither of which is a satisfactory outcome. For instance, clarity that straightforward stablecoin lending yield is treated consistently with conventional interest income could reduce this uncertainty.

- <u>Self-assessment burden</u>: Under the UK's self-assessment regime, taxpayers are responsible for identifying and reporting taxable income from stablecoin activity. For taxpayers receiving small or frequent stablecoin returns (e.g., through lending arrangements or yield-bearing products), the compliance burden of tracking and reporting those returns can be disproportionate to the amounts involved. This may deter retail adoption of stablecoin-based products, particularly where equivalent fiat-based products involve little or no compliance burden for the individual.

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Question 4: Currently, how do companies typically account for stablecoins in practice? Please include USDT/USDC and other common stablecoins.

In practice, corporates generally treat fiat-referenced, fully-backed stablecoins, such as USDC, as financial assets rather than intangible assets or a separate category of cryptoassets. Under IFRS, the reason is that the holder of a fully-backed stablecoin such as USDC typically has a direct contractual right of redemption at par against the issuer (i.e., a right to receive cash) which meets the definition of a financial asset under IAS 32 and IFRS 9. By contrast, cryptoassets that do not carry such a contractual redemption right are more commonly classified as intangible assets under IAS 38.

The treatment of USDT (Tether) warrants specific attention in this context. Unlike USDC, where Circle provides a direct and unconditional redemption right at par to certain verified institutional holders, Tether's terms of service restrict redemptions. In practice, most USDT holders therefore do not have a direct contractual right to receive cash from the issuer and instead access liquidity by selling on secondary markets rather than by redeeming directly with Tether. Under a strict application of IAS 32 and IFRS 9, USDT held by most corporate holders would therefore not meet the definition of a financial asset and would instead be classified as an intangible asset under IAS 38. We are aware that some corporates treat USDT as a financial asset on the basis that secondary-market liquidity is functionally equivalent to a redemption, but that treatment is not clearly supported by the IFRS framework and represents a preparer judgement that may not withstand scrutiny. HMRC's framework should not assume that USDT and USDC are treated identically for accounting purposes.

The accounting treatment in practice tends to reflect how the stablecoin is being used:

- <u>Operational and treasury balances</u>: Where stablecoins are held for short-term payment or settlement purposes and the holder has a direct contractual redemption right, as with USDC, they are typically classified as financial assets measured at amortized cost under IFRS 9. Under IFRS 9, the amortized cost carrying value is effectively equivalent to face value in most cases because of the on-demand redeemability of fully-backed stablecoins at par. Moreover, the business model must be to hold the asset to collect contractual cash flows, and those cash flows must represent solely payments of principal and interest (the "SPPI" test). Where no such redemption right exists (more likely for most USDT holders), stablecoins are classified as intangible assets under IAS 38 and measured at cost less impairment, with a revaluation model available if an active market exists. For a well-functioning stablecoin, both measurement bases will approximate par, but they introduce different accounting profiles.

- <u>Cash equivalence</u>: Classification as a cash equivalent under IAS 7 requires the asset to be readily convertible to a known amount of cash and subject to an insignificant risk of changes in value, with an original maturity of three months or less. Whether a given stablecoin satisfies these criteria — particularly the "insignificant risk" requirement, and, in the case of USDT, the absence of a direct redemption right — is a matter of preparer judgement and is not uniformly applied in practice.

- Investment and yield-generating positions: Where stablecoins are deployed into lending arrangements or other yield-generating strategies, the resulting position is recognized as a loan receivable, provided the IFRS 9 derecognition criteria are met (i.e., the contractual rights to the cash flows of the stablecoin have expired or been transferred together with substantially all the risks and rewards of ownership). In some DeFi lending or collateralised arrangements, derecognition may not occur, in which case the original stablecoin asset may remain on the lender's balance sheet alongside a corresponding liability, producing a different accounting presentation. Yield is recognized as income as it accrues, typically using the effective interest method under IFRS 9 where the asset is measured at amortized cost.

The key practical distinction — consistent with the broader themes of this submission — is between stablecoins used as operational, cash-like instruments and those used as investment assets. This distinction is already reflected in how many corporates treat their stablecoin positions and provides a natural and workable foundation for the tax framework HMRC is considering.

(By way of comparison, we note that major jurisdictions are exploring or implementing dedicated regulatory frameworks for fully-backed payment stablecoins, which distinguish such instruments from other, more speculative cryptoassets for regulatory purposes. We do not comment on the merits of any such frameworks, but simply observe a broader international focus on the economic function and risk profile of certain stablecoins as cash-like payment instruments.)

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

In practice, the Corporation Tax treatment of stablecoins tends to follow the accounting treatment and reflects how the stablecoin is being used — consistent with the broader themes of this submission.

- Operational and treasury balances: Where stablecoins are held purely as a short-term settlement or payment asset, corporates generally do not treat them as a separate profit center. Any small foreign exchange differences arising between fiat and stablecoin — or between different fiat currencies routed through a stablecoin — are recognized as foreign currency income or expense in the normal course of business, consistent with the treatment of foreign currency cash holdings.

- Lending arrangements: Where a corporate lends stablecoins — including under intercompany arrangements — such loans are typically structured and documented as debt instruments, with the lender recognizing yield as taxable income and the borrower recognizing a corresponding expense. As noted in our response to Questions 6 and 14, there is currently no definitive HMRC guidance confirming that such arrangements fall within the loan relationship rules, and clarity on this point would be welcome.

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- Investment positions: Where stablecoins are deployed into yield-generating arrangements, corporates generally recognize the returns as income in line with their accounting treatment, with the underlying stablecoin position treated as a financial asset. This accounting-linked approach is particularly significant in the UK context because the loan relationship rules in Part 5 of CTA 2009 explicitly adopt an accounting basis — amounts brought into account for loan relationship purposes are determined by reference to the amounts recognized in the company's accounts in accordance with generally accepted accounting practice.

As a result, the IFRS classification of a stablecoin — whether as a financial asset under IFRS 9 or as an intangible asset under IAS 38 — directly determines the Corporation Tax treatment. A stablecoin classified as a financial asset under IFRS 9 may fall within the loan relationship rules; one classified as an intangible asset under IAS 38 will not, and will instead fall (if it qualifies) within the intangible assets regime under Part 8 of CTA 2009, which operates on different computational and relieving rules. This interdependence between accounting classification and tax outcome is one of the principal reasons why clarity on the IFRS treatment of stablecoins — and in particular the divergence between USDC and USDT — is of direct relevance to the tax framework HMRC is designing.

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

This question engages directly with the interface between IFRS 9 and the UK loan relationship rules. We address each limb below.

- Limb (a) — loan relationship but not a financial asset under IFRS 9: In practice, this scenario is relatively uncommon for straightforward stablecoin lending arrangements, where the instrument typically satisfies both the IFRS 9 definition of a financial asset (contractual right to receive cash) and the loan relationship definition (a money debt arising from a transaction for the lending of money). However, the scenario can arise in two circumstances. First, where a stablecoin is classified as an intangible asset under IAS 38 rather than a financial asset under IFRS 9, as is arguably the correct treatment for USDT and as some preparers apply to stablecoins deposited into DeFi protocols, the position could be treated as a loan relationship for tax purposes without being accounted for as a financial asset under IFRS 9. Second, where a stablecoin arrangement is structured in a way that fails the SPPI test under IFRS 9 (e.g., because the return is contingent on protocol performance rather than representing solely payments of principal and interest), the position will be classified at fair value through profit or loss under IFRS 9. While such a position is still a financial asset, it is measured and recognized differently from an amortized cost instrument and the income recognized will be a fair value movement rather than interest income.

- Limb (b) — financial asset under IFRS 9 but not a loan relationship: This scenario is more common, particularly for DeFi arrangements. Where a corporate deposits stablecoins into a liquidity pool or automated market-maker protocol, the resulting on-chain position may be accounted for as a financial asset under IFRS 9 (or, where derecognition does not occur, the original stablecoin may remain on the lender's balance sheet). However, the legal form of the arrangement (a smart contract claim with no identifiable borrower and no bilateral loan agreement) may not satisfy the definition of a loan relationship under UK tax law. In such cases, there may be a genuine mismatch between the accounting treatment and the tax characterization.

In simpler bilateral lending arrangements, it is relatively common to see alignment between the IFRS 9 accounting treatment and the loan relationship characterization. For example, an intercompany USDC loan is typically documented as debt and accounted for as a financial asset under IFRS 9, satisfying both the IFRS 9 contractual cash-flow test and the loan relationship definition.

In contrast, where corporates deploy USDC into DeFi protocols, the legal form (e.g., smart-contract claims with no identifiable borrower) is more complex, and the potential for mismatch between IFRS 9 financial-asset treatment and loan relationship characterization is greater. However, in practice, for fiat-referenced stablecoins held or issued by corporates, it is unusual to see a material mismatch between (i) the accounting treatment as a financial asset under IFRS 9 (e.g., USDC balances, loans of USDC to group entities or to third-party protocols, including DeFi structures that are accounted for as financial assets) and (ii) the legal characterization as debt/loan relationships for tax purposes. The UK loan-relationship rules may or may not map neatly to those smart-contract arrangements; that is a policy design question, but the accounting side tends to follow economic substance (e.g., financial asset) rather than legal form.

Conversely, we are not aware in practice of material categories of stablecoin positions that are treated as loan relationships for tax, but not accounted for as financial assets under IFRS 9 in corporate balance sheets.

Question 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 current Corporation Tax framework could create a number of practical issues for corporates using stablecoins.

- Self-assessment burden: As discussed in our response to Question 3, under the UK's self-assessment regime, taxpayers are responsible for identifying and reporting taxable income from stablecoin activity. For taxpayers receiving small or frequent stablecoin returns (e.g., through lending arrangements or yield-bearing products), the compliance burden of tracking, valuing, and reporting those returns can be disproportionate to the amounts involved.

- Characterization uncertainty: For DeFi lending, liquidity pools, and more complex stablecoin arrangements, it can be unclear whether UK rules treat the position as a loan relationship, derivative contract, or composite instrument. This uncertainty may require corporates to undertake significant upfront tax analysis before deploying stablecoins in innovative on-chain markets, adding cost and risk that could deter UK entities from participating in treasury and yield-generating activities that their offshore counterparts may pursue more freely.

- Alignment with accounting: The UK loan relationship rules work well where it is clear that an instrument falls within them and tax can follow accounting. The friction for stablecoins is that corporates may not be able to assume with confidence that their stablecoin positions are within the loan relationship rules, and the accounting treatment under IFRS is itself unsettled, particularly whether stablecoins (e.g., USDT and stablecoins deposited into DeFi protocols) are IFRS 9 financial assets or IAS 38 intangible assets. Because the loan relationship rules are accounting-linked, accounting uncertainty compounds tax uncertainty: two preparers may reach different Corporation Tax outcomes on economically identical positions. Treasury teams may need to maintain parallel tax and accounting records and risk taking later challenges by HMRC. For instruments that are economically equivalent to cash or short-term deposits, this uncertainty is disproportionate and could be resolved through targeted legislative clarification or HMRC guidance that specifies how the loan relationship rules apply to stablecoin positions irrespective of their accounting classification. In the longer term, we expect that the development of a clear UK regulatory framework for fully-backed payment stablecoins, alongside similar work in other jurisdictions, could also help drive convergence in the accounting and tax treatment, and that accounting and tax outcomes will align more naturally once that regulatory and accounting framework is settled.

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

- Inconsistent treatment: Uncertainty about whether stablecoin yield is treated as income or in some other way can create inconsistent tax outcomes for economically similar returns. Many taxpayers — whether individuals or corporates — may find it difficult to understand why yield earned on a stablecoin lending arrangement should be treated differently from interest earned on a conventional cash deposit, particularly where the economic substance is broadly the same. This can increase compliance complexity and create a perception of unfairness.

- Reporting: Inconsistent treatment can create reconciliation challenges and additional complexity for platforms and taxpayers trying to report consistently across jurisdictions, particularly as international reporting frameworks continue to develop. For instance, where interest-like stablecoin returns are not characterized as “interest”, there can be uncertainty over which withholding regime applies and whether treaty interest provisions are available, leading to over-withholding or mismatched positions between counterparties.

From a policy perspective, a consistent approach — treating debt-like or lending yield on stablecoins in the same way as interest on fiat debt — could reduce incentives for tax-driven structuring and simplify compliance for both taxpayers and HMRC.

Question 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?

As referenced in our response to Question 8, cross-border interest-like payments in stablecoins may raise questions about the character and source of those payments for UK tax and treaty purposes, particularly where the underlying arrangement is a smart-contract claim rather than a conventional debt instrument. Where treaty relief is sought, there may be uncertainty about whether the instrument qualifies — potentially resulting in withholding tax costs that would not arise on an equivalent fiat transaction.

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

The regulatory definition of a qualifying stablecoin — a cryptoasset that seeks or purports to maintain a stable value relative to a fiat currency, backed by fiat currency or other assets held for that purpose — provides a sensible and workable starting point for tax purposes. We particularly welcome the fact that, as currently framed, the definition is not limited by where the stablecoin is issued. This is important in practice as widely-used stablecoins such as USDC and USDT are non-UK issued, but are already used by large numbers of UK residents and businesses. A definition that excluded non-UK-issued stablecoins would limit the practical effect of any reforms and could create an uneven playing field between functionally identical instruments.

We would suggest three further considerations for tax design purposes.

- Technology and regulatory neutrality: Tax rules should be designed to remain effective as regulatory categories evolve. A framework that is too tightly coupled to a specific regulatory authorization status risks producing different tax outcomes for instruments that are economically identical, simply because one has received a particular regulatory approval and another has not.

- Currency scope: As addressed in our response to Question 12, we support consideration of whether the tax framework should extend beyond sterling-denominated stablecoins to those denominated in other currencies. Given that dollar-denominated stablecoins currently represent the majority of stablecoin usage by UK residents and businesses, limiting scope to sterling-denominated stablecoins could significantly reduce the practical impact of any reform.

- De-pegging: The HMRC definition does not currently address what happens when a stablecoin temporarily loses its peg. This could be an important practical question — a stablecoin that de-pegs may no longer behave as a cash-like instrument, and its tax treatment should reflect that. In this respect, the US Treasury's approach to qualifying stablecoins under its digital asset reporting regulations may offer a useful model. The US definition includes a quantitative peg tolerance test — requiring that the stablecoin's value does not fluctuate from its reference currency by more than 3% over any consecutive 10-day period — and provides that a stablecoin that breaks its peg loses qualifying status for the entire calendar year. A similar mechanism in the UK framework could provide clarity and certainty for both taxpayers and HMRC on when a stablecoin ceases to be treated as a qualifying stablecoin for tax purposes.

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

The fundamental challenge with applying CGT to sterling-denominated qualifying stablecoins for individuals is that, by design, such stablecoins do not appreciate in value. As such, under the UK's self-assessment regime, every disposal may technically need to be considered and reported, even where the gain is negligible or nil. We address the additional design questions raised by non-sterling-denominated qualifying stablecoins in our response to Question 12.

For an individual using stablecoins for everyday payments or remittances, this will create a compliance burden that is wholly disproportionate to the economic activity involved. From a policy and practical perspective, our preferred approach would be to introduce a payments-focused exemption, a de minimis threshold for qualifying stablecoin transactions, or a combination of both.

A payments-focused exemption could mean that disposals of qualifying stablecoins are not treated as chargeable or reportable events for CGT purposes where the token is broadly cash-referenced and fully redeemable, and where it is held and used for payments, remittances, or cash management, rather than as a long-term investment. This would support the government's stated objective of enabling stablecoins to function as mainstream payment instruments.

Alternatively, or in addition, a de minimis exemption at the transaction level — excluding disposals below a certain size from reporting requirements — could provide meaningful relief for users without requiring a fundamental redesign of the CGT regime. This would also help ensure that the UK's implementation of the OECD Cryptoasset Reporting Framework does not inadvertently capture large volumes of economically insignificant stablecoin transactions within its scope.

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

Yes, we would support extending the scope of any CGT changes to include non-sterling-denominated fiat-referenced stablecoins for the following reasons.

In practice, UK residents commonly use dollar-referenced stablecoins such as USDC and USDT for payments, remittances, and cross-border transactions. A CGT simplification that applied only to sterling-denominated stablecoins would exclude the most widely used stablecoins in practice, significantly limiting the real-world impact of any reform and potentially creating an uneven playing field between functionally identical instruments that happen to reference different currencies.

For UK users, a USD-denominated stablecoin such as USDC is stable in dollars, but not in sterling. If the GBP/USD rate moves between acquisition and use, the user can have a gain or loss relative to sterling purely from foreign currency fluctuations, even though the token itself stays at $1. A CGT simplification limited to sterling-denominated stablecoins would therefore still require users of USD-denominated stablecoins to track and report these foreign currency-driven gains and losses, which is exactly the kind of administrative burden the reform is intended to remove.

We recognize that extending a CGT clarification to non-sterling-denominated stablecoins would go further than the current CGT treatment of foreign currency itself. Under existing rules, currency other than sterling is a chargeable asset in its own right and disposals can give rise to gains or losses, with a specific exemption where individuals hold foreign currency for personal expenditure overseas.

The treatment of foreign currency for CGT purposes thus already contains targeted exemptions for certain personal expenditure use cases, but we don't think it was designed with large volumes of digital payment transactions in mind. The compliance effort involved in treating every stablecoin transaction as a CGT event is very different in scale from occasional foreign currency gains in a bank account. In our view, extending a similar payments-focused simplification to qualifying non-sterling-denominated stablecoins used as digital payment instruments is a coherent development of that principle.

From a policy perspective, the more meaningful distinction is not between sterling and non-sterling-referenced stablecoins, but between fiat-referenced, fully-backed, payment tokens on the one hand and tokens that do not maintain a stable fiat peg on the other. Any CGT simplification could reasonably be scoped around that distinction, regardless of the reference currency. Extending the scope to non-sterling-denominated stablecoins would also better reflect how stablecoins are used in cross-border payment flows.

If, however, a full exemption for non-sterling-denominated qualifying stablecoins used for payment purposes is not considered feasible, HMRC could also consider a more narrowly targeted safe harbor for modest foreign currency movements on payment-use transactions (e.g., within a specific tolerance band). We do not attempt to prescribe the precise design of such a mechanism in this response.

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

We would highlight two areas where clarification or reform of the Income Tax treatment of stablecoins may be beneficial.

- Yield from lending stablecoins: There is currently uncertainty about whether yield earned from lending stablecoins (e.g., through centralised platforms or on-chain lending arrangements) is treated as taxable income in the same way as interest on a conventional cash deposit or debt instrument. We would welcome confirmation that such yield is treated as income when received or credited to the user, consistent with the treatment of fiat interest. This would provide clarity for individuals and reduce the risk of inconsistent treatment across economically similar activities, as discussed in our response to Question 8.

- Cross-border yield: For UK residents participating in global lending markets, there may be uncertainty about the source and character of stablecoin yield for Income Tax purposes (e.g., whether interest-like returns follow the same territorial rules as conventional fiat interest). Clarity on this point would reduce uncertainty for UK residents and help ensure that the Income Tax treatment of stablecoin yield is consistent with the broader policy objective of treating economically similar returns in a similar way, regardless of whether they are received in stablecoins or fiat currency.

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

Consistent with our responses to Questions 1, 7 and 10, our preferred approach is for qualifying stablecoins to be treated as money for Corporation Tax purposes, bringing them within the loan relationship rules in Part 5 CTA 2009, with targeted clarification in the following areas:

- Clarifying the treatment of payment flows: Where stablecoins are used purely as an intermediate settlement asset in a payment flow (e.g., where fiat currency is converted into a stablecoin and back into a different fiat currency to facilitate a cross-border payment) clarification that this does not in itself give rise to separate taxable gains beyond normal foreign exchange and fee income recognition would be welcome. As noted in our response to Question 12, this structure is increasingly used in cross-border payment corridors and the tax treatment should reflect its economic purpose.

- Confirming loan relationship treatment: Where corporates lend or borrow stablecoins under legally documented arrangements (e.g., intercompany loans denominated in USDC) there is currently no definitive HMRC guidance confirming that such arrangements fall within the loan relationship rules. Confirmation of this would reduce uncertainty and avoid the need for case-by-case characterization analysis. For less conventional arrangements (e.g., deployments into DeFi protocols governed by smart contracts rather than bilateral legal agreements) the position is less clear, and we would welcome HMRC guidance on how the loan relationship rules apply in those contexts.

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

We would caution against making the availability of any tax simplification depend on how a stablecoin is presented in a company's accounts, particularly whether fair value movements are recognized in profit and loss or in other comprehensive income ("OCI"), as those presentation outcomes reflect the specific terms of an instrument under IFRS 9's classification and measurement framework rather than any meaningful economic difference between instruments. It is important to note that under IFRS 9, the treatment of fair value movements in OCI is not, in all cases, a matter of free preparer choice. For debt instruments, measurement at fair value through OCI (FVOCI) is determined by the business model test — specifically, where the asset is held both to collect contractual cash flows and to sell — rather than by election. For equity instruments, the OCI designation is available by election, but is irrevocable once made. In neither case does OCI treatment reflect an arbitrary accounting preference. It would be anomalous if two economically identical stablecoins received different tax treatment simply because of how they were classified or presented in the accounts.

Our preferred approach would be to define qualifying stablecoins for tax purposes by reference to their economic features (e.g., whether they are fiat-referenced, fully backed, and redeemable) rather than by reference to their accounting classification or presentation. This is consistent with the approach we have advocated in our earlier responses, and would produce a more stable and principled framework that is less susceptible to variation in accounting judgements across different preparers or jurisdictions. Where accounting concepts are used as a reference point (e.g., to distinguish between stablecoins held as payment instruments and those held as investments), we would suggest these are used as a guide rather than a hard boundary, with the economic substance of the holding remaining the primary test.

Question 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?

Where a stablecoin is lent in a straightforward lending arrangement — that is, where a lender transfers stablecoins to a borrower in exchange for a promise of repayment of an equivalent amount of stablecoins at a future date, together with a pre-agreed return calculated by reference to the notional fiat-currency-denominated value of the loan — such an arrangement may, in economic substance, be considered analogous to a loan of money. In those circumstances, there may be a case for considering whether such returns could be treated in a manner consistent with interest for tax purposes for both individuals and companies.

Such an approach could help reduce a potential disparity that may have no clear economic justification, reduce compliance complexity for individuals and companies engaged in stablecoin lending and treasury management, and help ensure that the tax treatment of qualifying stablecoin lending arrangements is more consistent with their economic substance. We recognize that bringing straightforward stablecoin lending returns within the interest framework would also have implications for UK source and withholding tax rules, and access to treaty relief, in cross-border cases. Our view is that, to the extent an arrangement is economically identical to a conventional fiat loan, it may be appropriate that its source and withholding profile is aligned with that treatment; nonetheless, we would welcome HMRC guidance on how any reform in this area would interact with the existing UK interest-withholding and treaty rules.

Where returns are generated in other ways (e.g., through automated market-making participation or yield-bearing stablecoin products where there is no clearly identifiable borrower or pre-agreed contractual return), the position is more complex and may not lend itself to straightforward interest treatment. We would welcome HMRC guidance on how such arrangements should be treated, and on where the boundary between interest-like and other returns should lie in practice.

Question 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 play a central role in both DeFi lending markets and liquidity pool arrangements, and their use in these contexts has grown significantly in recent years.

- DeFi lending: Stablecoins — particularly USDC and USDT — represent a substantial proportion of assets deposited and borrowed on major DeFi lending protocols. This reflects their utility as a stable unit of account and their widespread acceptance as collateral and borrowing assets. Publicly available data from on-chain analytics providers can provide a more precise and current picture of market share across individual protocols than we are able to offer here.

- Liquidity pools: Stablecoin pairs (e.g., USDC/USDT or USDC paired with major tokens) constitute a significant share of total value locked and trading volume on automated market maker platforms. This is largely because traders frequently route transactions through stablecoins as base assets, making stablecoin liquidity pools among the most actively used in the market.

- Overall: Publicly available data from on-chain analytics providers suggests that stablecoins consistently account for a significant majority of activity in DeFi lending markets, and a material share of liquidity pool activity more broadly. We would be happy to engage further with HMRC on this question if helpful.

Question 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?

We would suggest that the tax framework for cryptoasset loans and liquidity pools should apply consistently whether the underlying asset is a stablecoin or a more volatile cryptoasset. The nature of the arrangement — rather than the type of asset involved — should be the primary determinant of tax treatment. The key considerations are whether a return is generated through a lending arrangement, trading activity, or some combination of the two, and how that return should be characterized for tax purposes.

- Interaction with stablecoin reforms: If HMRC adopts a payments-focused simplification for qualifying stablecoins (e.g., a CGT exemption or safe harbour for stablecoins used as payment instruments), we would suggest that such simplification should not extend to stablecoins deployed into lending protocols or liquidity pools. In those cases, the stablecoin is being used as an investment or yield-generating asset rather than a payment instrument, and the economic rationale for any payments-focused simplification would not apply. Returns from such arrangements should continue to be taxed under the appropriate income or capital rules.

- Anti-avoidance considerations: We recognize that any payments-focused simplification could create incentives to characterize investment or yield-generating activity as payment activity in order to benefit from more favourable treatment. To mitigate this risk, we would suggest that eligibility for any simplification should be based on the factual use of the stablecoin (e.g., whether it is genuinely held and used as a short-term settlement asset) rather than simply on the label or classification of the token. A principles-based approach of this kind could help ensure that any simplification remains targeted at its intended use case without creating opportunities for avoidance.

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We appreciate your consideration of our comments. We would be happy to discuss these matters further at your convenience and look forward to assisting in the development of constructive tax rules for the digital asset ecosystem.

Very truly yours,

Lawrence Zlatkin
Vice President, Tax

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