Taxation of stablecoins: CIOT and ATT respond to consultation

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The CIOT and ATT both responded to HM Treasury’s call for evidence on the taxation of stablecoins, drawing attention to significant compliance challenges for individuals and the need for any reform to prioritise simplicity and practicality.

Stablecoins are a type of cryptoasset backed by fiat currencies, such as US dollars, or by commodities, such as gold. They bridge the gap between volatile cryptocurrencies and traditional financial systems, acting as a base asset for trading and facilitating fast international transactions.

While stablecoins function similarly to regular currency, their UK tax treatment aligns with other cryptoassets. The consultation sought views on whether the current rules remain appropriate as the use of stablecoins grows, along with the use of cryptoassets in general, and to what extent the tax treatment causes problems.

Capital gains tax

A key concern for both the CIOT and ATT was the administrative burden created by the current capital gains tax (CGT) framework.

The CIOT highlighted scenarios where taxpayers repeatedly move in and out of stablecoins while maintaining essentially the same economic position. Despite there being no meaningful gain, they must calculate gains or losses on each transaction.

Similarly, the ATT reported that where stablecoins are used as an intermediate step, for example within smart contracts, a single economic transaction can give rise to multiple taxable disposals. This can distort the tax position and overstate levels of activity.

Both bodies noted that these issues are exacerbated by the high volume of low-value transactions that are typical in crypto markets, and by the limitations of software tools, which often require significant manual adjustment to produce accurate UK tax results.

It was accepted that these complexities could act as deterrents to the use of stablecoins, particularly for retail payments, where each transaction potentially requires valuation, record-keeping and reporting.

Income tax

In contrast to CGT, the CIOT considered the current income tax framework to be workable overall. Stablecoins can generate different types of income depending on how they are used and this should be reflected in how they are taxed, for example as employment income, trading income or miscellaneous income.

The ATT highlighted that treating returns on stablecoins as miscellaneous income can disadvantage lower earners, as it prevents access to the savings nil rate band. On the other hand, it acknowledged that the current treatment could allow use of alternative allowances, such as the trading allowance.

Overall, both bodies suggested that wholesale reform of income tax treatment may not be necessary, though the CIOT called for additional HMRC guidance to help taxpayers distinguish between trading and investment activities in complex cases.

Options for reform

The CIOT suggested that a simplification of the CGT position, for example through a ‘no gain/no loss’ approach, would significantly reduce administrative burdens. However, any changes would need to be considered as part of a wider review of the taxation of electronic assets to ensure consistency.

The ATT received mixed views from its members on this topic, but noted support for similar outcomes in certain scenarios, particularly where stablecoins are used as intermediary assets. In such cases, exempting gains or applying a no gain/no loss treatment could remove distortions and better reflect the underlying economic reality.

The ATT concluded that, rather than introducing specific tax changes at this point, a broader long-term roadmap was needed, bringing together solutions for the taxation of stablecoins, cryptoassets and smart contracts. Expertise from software developers was also highlighted as a key component, given the reliance on computer programs to run calculations at volume.

Both bodies also stressed that reforms should not be limited to sterling-denominated stablecoins. Given that most stablecoins are US dollar-linked, restricting changes to sterling tokens would significantly limit their practical impact and could introduce further complexity.

Definition and scope

The CIOT and ATT broadly agreed that the regulatory definition of ‘qualifying stablecoins’ provides a reasonable starting point for any tax reforms.

However, both highlighted practical challenges in applying such definitions. The CIOT suggested a non-exhaustive ‘whitelist’ of recognised coins to provide certainty, though the ATT cautioned that maintaining such a list may be difficult and risked implying HMRC endorsement of specific tokens.

The ATT additionally emphasised the need for clear guidance on the level of due diligence expected of taxpayers in determining whether a token qualifies as a stablecoin.

Wider issues

The ATT raised concerns about the lack of detailed guidance in relation to the inheritance tax treatment of cryptoassets, for example inaccessible cryptoassets where private keys are lost, and the absence of loss-on-sale relief comparable to that available for shares.

Conclusion

The CIOT and ATT responses underlined a shared concern: the current tax treatment of stablecoins often fails to reflect their economic function and creates disproportionate compliance burdens.

The CGT rules were identified as adding complexity to the tax system, potentially acting as a deterrent to wider use of stablecoins. The CIOT advocated a simplified no gain/no loss approach as part of a consistent wider framework for the taxation of electronic assets. The ATT emphasised the need for workable, system-wide reforms supported by practical implementation tools.

Both perspectives reinforce the importance of designing a regime with real-world usability, ensuring that tax rules keep pace with the evolving role of stablecoins without discouraging legitimate use.

Ruth Sadlier *rsadlier@ciot.org.uk*
Helen Thornley *hthornley@att.org.uk*