



**Electronic Money Association**

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08 June 2023

Dear Alex

**Re: EMA response to HMRC consultation on the taxation of decentralised finance (DeFi) involving the lending and staking of cryptoassets**

The EMA represents payments, crypto asset and FinTech firms, engaging in the provision of innovative payment services, including the issuance of e-money, e-money tokens, open banking payment services, and cryptoasset related services including stable coins. The EMA was established some 20 years ago and has a wealth of experience in regulatory policy relating to payments, electronic money, and more recently crypto assets. A full list of our members is provided in the appendix to this document.

In August 2022, the EMA participated in HMRC's call for evidence on the taxation of Decentralised Finance (DeFi) involving the lending and staking of cryptoassets. In this response, the EMA and its members provided a view of how the current approach to the taxation of DeFi lending and staking could lead to the UK being seen as a less favourable place to do business, when rules create situations where transactions are treated as "disposals", despite the effective economic ownership of the cryptoassets being retained. This creates a tax liability despite no gain being realised.

The EMA was supportive of a change to the current rules, particularly in line with the UK government's plan to become a "global hub" for cryptoassets. In order for this vision to be achieved, a key ingredient is an appropriate and technology-friendly tax framework to be put

in place, for both DeFi lending and staking and for cryptoasset trading as a whole. The EMA further supported 'Option 2' of the government's proposed alternatives (legislate to create separate rules for DeFi lending and staking) as this may provide a basis for developing a more tailored tax treatment of DeFi lending and staking. It would for example remove from the scope of Capital Gains Tax certain lending and staking activities, without requiring cryptoassets to be classified as 'securities'.

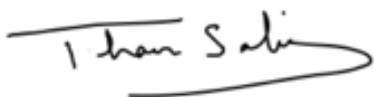
Following the outcome of this call for evidence, on 27<sup>th</sup> April 2023 HMRC launched a new consultation on the taxation of DeFi lending and staking. As part of this, the government has outlined its position that 'Option 2' is seen as the best approach, and thus HMRC is consulting on the implementation of a new taxation approach. Under this proposal, a charge to Capital Gains Tax will arise only when the cryptoassets are economically disposed of (such as an outright sale or when they are exchanged for goods and services).

The EMA and its members are supportive of the government's proposed approach. We agree that it is necessary to overhaul the current approach to DeFi taxation and believe HMRC's proposals in this regard are fair and proportionate. We also want to commend the process of engaging with the industry in public calls for evidence and consultation to try to achieve the right outcome.

We would be grateful for your consideration of our above comments and remain at your disposal to discuss this matter further.

Thank you.

Yours sincerely,



Dr Thaer Sabri  
Chief Executive Officer  
Electronic Money Association

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