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HM Revenue and Customs
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15 May 2026

Dear Sir, Madam

Re: EMA response to https://www.gov.uk/government/calls-for-evidence/cryptoasset-taxation-stablecoins/taxation-of-stablecoins

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide, providing online payments, card-based products, electronic vouchers, and mobile payment instruments. Most members operate across the UK/EU, most frequently on a cross-border basis. A list of current EMA members is provided at the end of this document.

I would be grateful for your consideration of our comments and proposals.

Yours sincerely,

Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

EMA responses

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?

No comment.

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

We consider the background context provided by HMRC regarding the current GGT tax administrative burden to be accurate.

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?

[Please see EMA response to Q13.]

Question 4: Currently, how do companies typically account for stablecoins in practice? Please specifically include references to USDT and USDC, 2 of the major stablecoins in the current market, as well as other common stablecoins used by companies.

In practice, companies do not apply one uniform accounting treatment to USDT and USDC. The treatment depends primarily on the holder's rights, including whether the holder has a sufficiently direct and enforceable contractual redemption right against the issuer, and on the purpose for which the tokens are held. Where the holder has direct issuer redemption rights, there may be a stronger case for financial asset treatment. Where such rights are absent and the holder relies primarily on secondary market liquidity, intangible asset treatment may be more likely, unless the tokens are held for trading or market making purposes, in which case inventory treatment may be more appropriate.

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?

No comment.

Question 6: To what extent is it possible in practice for a stablecoin:

- **to be a loan relationship, but not be accounted for as a financial asset under IFRS 9 (or equivalent) and/or**
- **to not be a loan relationship, but to be accounted for as a financial asset under IFRS 9 (or equivalent)?**

No comment.

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?

No comment.

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

The contrasting treatment of interest like returns on stablecoins and actual interest on fiat currency debt can create economic inconsistency. In particular, it can produce different tax results for transactions that are economically very similar, simply because the instrument being lent is not formally regarded as money. Those differences are likely to become more problematic if qualifying stablecoins are increasingly used in treasury, payment and settlement contexts. For that reason, we consider that, at least for qualifying stablecoins, the treatment of interest like returns should be reconsidered so that the tax outcome better reflects economic substance.

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?

No comment.

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

We consider the regulatory definition of a qualifying stablecoin to provide a suitable starting point for the scope of potential tax changes as insinuated throughout our answers to the current tax treatment and proposals.

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

We consider that eligible stablecoins should be treated as exempt assets for CGT purposes, rather than simply introducing a reporting threshold.

While removing the reporting requirements for Self-Assessment purposes, for transactions of certain stablecoins made below a certain threshold, would be a reduction in the burden associated with personal tax administration it would not remove the liability to pay CGT on any gains arising from the disposal of stablecoins including when stablecoins are used to make purchases of goods and services.

Treating stablecoins as exempt for the purposes of CGT better aligns the tax treatment with ordinary fiat currency, where individuals are not expected to perform a CGT calculation every time they spend money.

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

Non sterling denominated stablecoins should also be capable of full CGT exemption, but only where they meet the same strict qualifying criteria and are used as payment or settlement instruments rather than as investment, FX speculation or DeFi yield assets.

The function of the stablecoin is a better dividing line than the currency.

For example, relief could be limited to stablecoins that are:

- fiat-referenced and asset backed;
- redeemable or designed to maintain par value;
- not algorithmic or unbacked;
- not held or used for investment, trading, speculative FX exposure, DeFi lending, staking or liquidity pool activity;
- used in a payment, settlement or transactional context.

If a non sterling stablecoin is being used as a genuine payment or settlement asset, the tax policy rationale is similar to sterling stablecoins, i.e. users should not face CGT calculations every time they transact.

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

We do not consider that material changes are needed to the ordinary Income Tax treatment of stablecoins. Where stablecoins are received as employment income, trading income, business receipts or other taxable income, the existing rules appear capable of taxing those receipts in broadly the same way as fiat currency.

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

We consider that the better approach would generally be to bring qualifying stablecoins directly within the loan relationships regime. While qualifying stablecoins are designed to maintain a stable value by reference to fiat currency and are intended to function as treasury, payment or settlement assets, treating them as money universally is too blunt an approach, and could be disruptive. It would require the law to set out, with greater precision, which stablecoins count as money, in what circumstances, and for which purposes.

By contrast, treating qualifying stablecoins as a money debt is more targeted and better reflects their economic substance. Where a fiat referenced, asset backed stablecoin gives the holder a credible redemption right and is used as a treasury, payment or settlement asset, it is much closer in substance to a debt-like claim than to a speculative cryptoasset. The advantage of the

money debt approach is that it aligns more closely with the legal and commercial reality of a redeemable claim on the issuer.

We recognise that this approach can still leave room for technical debate about whether a particular token really satisfies the legal ingredients of a money debt in each case, for example depending on who has the redemption rights (i.e. whether a direct or indirect claim) and how those rights are structured. The question is whether the company holding it has a sufficiently direct and enforceable right to receive fiat currency from the issuer such that the token can properly be analysed as a debt owed to that company. For e.g. for many companies holding stablecoins such as USDT or USDC for operational, treasury or settlement purposes, the accounting analysis already has to consider whether the holder has an enforceable contractual right to receive cash from the issuer. Where there is no direct contractual redemption right, or where redemption is available only to certain eligible holders, the token may be accounted for as an intangible asset (under IAS 38) rather than a financial asset under (IAS 32). The same kind of issue could arise in the tax analysis if the reform is based only on whether the token gives rise to a money debt.

That matters because the technical debate could lead to different outcomes for economically similar qualifying stablecoins. One company might hold a token directly with issuer redemption rights and argue that it gives rise to a money debt. Another company might hold the same token through market infrastructure or secondary market channels, without the same direct contractual rights, and face a different conclusion. The result could be that one holding falls into loan relationships, while another falls into chargeable gains or some other regime, even though both tokens are functioning in practice as treasury or settlement assets. In other words, relying only on a money debt analysis could preserve exactly the kind of fragmentation that is trying to be fixed.

That is why the direct loan relationship rule is, in our view, the cleanest fit for qualifying stablecoins. The main reason is certainty. If the reform relies only on whether a particular token gives rise to a "money debt", companies may still need to analyse difficult holder level questions in each case, such as whether the holder has a sufficiently direct and enforceable redemption claim against the issuer. A direct loan relationship rule would avoid that case by case debate by providing that a clearly defined class of qualifying stablecoins is simply treated within the same income based framework.

The direct loan relationship would produce a more coherent and administrable result. It would mean that fiat referenced, asset backed and redeemable stablecoins used by companies in treasury, settlement and payment contexts are taxed in a way that reflects what they are economically doing. These instruments are much closer in substance to short term debt like or

cash equivalent claims than to assets held for capital appreciation. It is therefore more natural to tax them through an income based debt regime than to leave them falling into chargeable gains treatment, which is a less comfortable fit for instruments intended to operate more like payment or settlement assets.

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

The scope of the money debt rule should cover both UK issued and non UK issued, whether GBP denominated or non GBP denominated, fiat backed currency stablecoins, provided they fall within a tax definition aligned to the UK concept of a qualifying stablecoin. Restricting the reform only to UK issued tokens would be too narrow. Instead, the scope should be determined by the substantive features of the token, namely whether it falls within a tax definition aligned to a qualifying stablecoin, rather than by the accounting label applied in a particular case. A strict accounting based gateway, such as limiting the reform only to tokens accounted for as financial assets, could exclude economically similar stablecoins and preserve the current fragmented treatment, given that accounting outcomes may differ depending on holder rights, redemption mechanics and purpose of holding.

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?

We believe that for qualifying stablecoins, interest-like returns should generally be treated in the same way as actual interest. The current treatment creates an artificial distinction between economically similar transactions simply because the instrument being lent is not formally regarded as money.

Where a fiat referenced, asset backed and sufficiently redeemable stablecoin is used in a payment, settlement or treasury context, the return is closer in substance to interest on a monetary claim than to miscellaneous income from a speculative cryptoasset arrangement. However, this treatment should be limited to qualifying stablecoins.

For that reason, we believe that, at least for qualifying stablecoins, interest- like returns should generally be treated in the same way as actual interest. However, that treatment should be

limited to qualifying fiat referenced, asset backed and sufficiently redeemable stablecoins, and should not extend indiscriminately to all cryptoassets or all stablecoin type arrangements.

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.

While UK specific market share data is limited, the Bank of England made the point in 2022 that around 75% of cryptoasset trading on centralised exchanges involves a stablecoin and that stablecoins play a key role in DeFi applications.[1] This reflects the view that stablecoins are deeply embedded in crypto market infrastructure generally, and that their role in DeFi lending and liquidity pools is substantial rather than peripheral.

For actual figures, the most useful evidence comes from protocol level / market wide sources. Aave currently holds approximately $7.09 billion of total stablecoin deposits, of which around $660 million is available for borrowing, with approximately $6.43 billion already borrowed.[2] That is a strong indicator of scale in itself as it shows that stablecoins are not marginal assets on major lending protocols, but form a very large part of the available lending base. A separate Aave governance disclosure gives a more granular example. It reported that a single large lending segment linked to Ethena/Pendle collateral involved $1.58 billion of stablecoin borrows, including $1.02 billion of USDT and $555 million of USDC.[3] It also said those positions represented 28.8% of all USDT borrows and 20.6% of all USDC borrows on Aave V3 Ethereum.[4] Those figures do not tell us the entire DeFi market share, but they do show that, on one of the largest DeFi lending protocols, stablecoins make up a very substantial share of borrowing activity.

Stablecoins are equally important in liquidity pools. Curve is a good example because it is specifically structured as a StableSwap protocol designed for highly efficient stablecoin trading. That matters because it shows that stablecoin liquidity is not incidental to DeFi pools as there is an entire class of automated market maker built around it. More broadly, DefiLlama's stablecoin data currently shows an aggregate stablecoin market of roughly $320 billion, which underlines the sheer scale of stablecoin liquidity available to support DeFi lending, collateralisation and liquidity pool activity across chains.[5] That does not mean all of that value is locked in DeFi pools

[1] https://www.bankofengland.co.uk/financial-stability-in-focus/2022/march-2022
[2] https://aavescan.com/stablecoins
[3] https://governance.aave.com/t/aave-s-growing-exposure-to-ethena-risk-implications-throughout-the-growth-and-contraction-cycles-of-usde/22791
[4] https://governance.aave.com/t/stress-testing-ethena-a-quantitative-look-at-protocol-stability/22558
[5] https://defillama.com/stablecoins

at any one time, but it does show that the underlying stablecoin base available to feed those arrangements is extremely large.

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?

The treatment of cryptoasset loans and liquidity pools should interact with the treatment of stablecoins in a way that preserves continuity of charge and prevents value from moving between different tax categories without an appropriate taxing point. If qualifying stablecoins are to receive more favourable treatment, for example through CGT exemption for individuals or debt like income treatment for companies (for e.g. via the loan relationship rules as we have suggested above), lending and liquidity pools should not be able to be used to wash taxable gains into exempt or differently taxed positions. The government should therefore ensure that no gain/no loss treatment, rollover treatment and stablecoin reform are tightly coordinated.

The reason this matters is that the proposed reforms suggested (bringing qualifying stablecoins directly into the loan relationship regime) could create opportunities for tax avoidance or unintended tax leakage in at least three ways.

a. Movement from taxable cryptoassets into more favourably treated stablecoins

The first issue is a taxpayer could move from a taxable cryptoasset into a more favourably treated qualifying stablecoin through a lending or liquidity pool arrangement.

<u>Individuals</u>

For individuals, this is most obvious if qualifying stablecoins receive CGT exemption (as proposed earlier in our responses) or special treatment. An individual could hold a cryptoasset with a built in gains, move that exposure into a stablecoin through a liquidity pool or lending structure, and argue that because the replacement position is now a qualifying stablecoin, the original gain has either been deferred too generously or perhaps effectively disappeared. That would be particularly problematic if the stablecoin side of the arrangement is treated as exempt, while the original cryptoasset was not.

<u>Companies</u>

For companies, the same type of issue arises in a different form. A company could move from a cryptoasset exposure that would normally fall within chargeable gains into a qualifying stablecoin that falls within a loan relationship or similar income based regime. That would allow the company to change the tax treatment of what is economically the same position. Therefore value would be moved from one tax framework into another.

A possible solution is to ensure that moving into a qualifying stablecoin through a cryptoasset loan or liquidity pool does not sever the tax history of the original asset. If gains are rolled over from a non exempt cryptoasset (i.e., not a qualifying stablecoin or differently taxed cryptoasset) into a new position, those gains should remain identified and taxable at the appropriate later point.

b. Recharacterisation of gains from capital to income, or vice versa

The second risk is recharacterisation. If the rules for cryptoasset loans and liquidity pools are not properly coordinated with any stablecoin reforms, taxpayers may be able to move economically continuous value between different tax regimes without an appropriate taxing point. The proposed reforms suggested in our above responses regarding individuals income tax, CGT, and different categories of company tax, contemplate different treatment for different kinds of assets:

- For individuals, qualifying stablecoins becoming exempt;
- For companies, qualifying stablecoins being brought into loan relationship rules.

If DeFi lending and liquidity pool rules are not carefully aligned with those reforms, taxpayers may be able to move between:

- Taxable and exempt treatment;
- Chargeable gains treatment and income-based treatment;
- Non-qualifying cryptoassets and qualifying stablecoins;

without crystallising the appropriate tax charge.

For e.g., a company might contribute a cryptoasset currently within the chargeable gains regime into a liquidity pool and emerge economically exposed to a qualifying stablecoin taxed under the loan relationships rules. The company could then argue for a different tax treatment in respect of what is, in substance, a continuation of the same economic value. Similarly, an individual might move from a taxable cryptoasset into an exempt qualifying stablecoin position and argue that the original built in gain has been deferred or displaced more generously than intended. An appropriate taxing point or a robust rule preserving the original gain is required.

c. Deferral becoming effective exemption

The third risk is that a no gain/no loss or rollover approach for cryptoasset loans and liquidity pools could become, in practice, an effective exemption if the replacement asset is a qualifying stablecoin with better treatment.

The policy idea behind no gain/no loss treatment is usually sensible as tax is deferred because the taxpayer remains economically invested, and the built in gain is rolled into the base cost of the replacement asset. The problem comes if the replacement asset is later treated in a way that means the gain is never properly brought back into charge.

For individuals, that could happen if a gain on a taxable cryptoasset is rolled into a qualifying stablecoin and the stablecoin later benefits from an exemption or relief. For companies, that could happen if a gain migrates into a qualifying stablecoin that is taxed under a different regime, potentially with different recognition, timing rules or income statement treatment.

How this should be mitigated

a. Restrict no gain/no loss treatment where assets move between tax categories. Do not let no gain/no loss treatment apply when the asset is moving from one tax category to another.

b. Preserve rolled over gains and losses. I.e. If you do let the gain roll into a new asset, make sure the old gain stays attached to that new asset. The rules should ensure that those rolled over amounts remain within the scope of tax on a later disposal or realisation event.

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