

HMRC duck most of the big issues on the taxation of Bit...

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HMRC [have issued new guidance on the taxation of Bitcoins today](#).

The essence of this guidance is that trading in bit coins is now not subject to VAT, whilst trading recorded in bit coins is now definitely subject to taxation in the same way as any other income.

However, the key differential factor with regard to bit coins is that this is a 'cryptocurrency' about which HM RC say, in a release laden with gobbledegook:

Purpose of this Brief

This brief sets out HM Revenue & Customs (HMRC) position on the tax treatment of income received from, and charges made in connection with, activities involving Bitcoin and other similar cryptocurrencies, specifically for Value Added Tax (VAT), Corporation Tax (CT), Income Tax (IT) and Capital Gains Tax (CGT).

Readership

Anyone making charges or otherwise receiving income, in whatever form, from activities involving Bitcoin (or other cryptocurrencies), including:

- * *Bitcoin miners*
- * *Bitcoin traders*
- * *Bitcoin exchanges*
- * *Bitcoin payment processors*
- * *Other Bitcoin service providers*

Background

Bitcoin is seen as the world's first decentralised digital currency, otherwise known as a

'cryptocurrency'. The advent of cryptocurrencies such as Bitcoin is a new and evolving area and determining their legal and regulatory status is ongoing. Cryptocurrencies have a unique identity and cannot therefore be directly compared to any other form of investment activity or payment mechanism.

HMRC understands that Bitcoin operates via a peer to peer network, independent of any central authority or bank. All functions such as issue, transaction processing and verification are managed collectively by this network. All Bitcoin transactions are recorded in a shared public database called a 'block-chain'. New Bitcoin is produced when a new block is attached to the chain. A new block can only be added to the chain when the answer to a complex cryptographic algorithm is solved. Participants in this activity are known as 'miners'.

As well as mining, activities include the buying and selling of Bitcoin and providing exchange facilities for parties to trade Bitcoin with recognised currencies. Bitcoin may be held as an investment or used to pay for goods or services at merchants where it is accepted. In the UK, there are already a number of outlets, including pubs, restaurants and internet retailers, that accept payment by Bitcoin.

The unique characteristic of this currency is, therefore, that a user can create it. This is the supposed adapter at it called 'mining'. This is an activity giving rise to profit that is equivalent to the age-old right of governments called seigniorage: that is, the surplus that arises when a unit of currency is created.

There is no hint in the release as to how that surplus is to be taxed. As a result it is clear that HMRC have missed the biggest potential challenge from Bitcoins, which is that they claim a right of government, attributable to a state, which is to make a surplus from the creation of the medium of exchange. In the process they duck the fundamental destabilising nature of this activity which is intended to create a currency that is beyond the reach of taxation. As an exercise in opening the barn door and letting the horses bolt, this is a particularly good example.