How To Minimise Tax On Cryptocurrency

Cryptocurrency is the new financial method that is making the world go around. It provides users with a more transparent and secure way to transfer funds and make payments due to its blockchain technology. As a result, many claim cryptocurrency is the future of finance and uses it as their primary payment method.

However, when you sell cryptocurrencies and make a profit from them, they are subject to capital gains tax. This is a bit of a disappointment to some, as this new form of finance has brought so much promise to the world. But you don't need to worry, as there are many ways to minimise the tax and get the most out of your coins.

What is cryptocurrency?

Before we get started on how to minimise cryptocurrency tax, let's first discover exactly what it is. In simple terms, cryptocurrency is a form of digital payment that can be verified without the use of any banks. It relies on a peer-to-peer system via blockchain technology and allows people to send and receive coins anywhere in the world.

Unlike fiat currency, which can be withdrawn in physical cash, cryptocurrency is entirely digital and stored in various digital wallets. The most popular and first form of cryptocurrency was Bitcoin, which many people have heard of, and it was first released to the world as far back as 2009. However, it has only become a more viable payment method in the past few years.

How cryptocurrency works can appear a bit confusing initially, but it is really simple when you get your head around it. Basically, it is operated using blockchain technology, a public ledger that holds all the transactions made by currency holders. Cryptocurrency is first formed when someone mines it. This involves a large amount of computer power to solve complex mathematical equations.

You then store and spend your cryptocurrency through digital wallets accessed via a key. You need to remember this key to access your wallet, as they do not store your passwords like your typical bank account.

Legal ways to minimise tax

So, you now know the ins and outs of cryptocurrency, but how do you buy and sell your coins without paying a ton of tax? Luckily, we have four fantastic methods for you. They may not all be applicable to your situation, but there will definitely be one where you can minimise your overall tax.

Tax-free thresholds

Luckily, when you're a resident of the UK, there are tax-free thresholds available that you can use for your cryptocurrency. Basically, you only have to pay capital gains tax on your annual gains when it is above £12,300. This is known as the annual exempt amount and means you can claim that full amount completely tax-free.

If you're working while you're trading cryptocurrency, you can ensure your crypto fits into this threshold, so you pay tax on your annual income rather than your digital coins. Staying up to date on these tax-free minimums will put you at an advantage and help keep the tax on your cryptocurrency as low as possible.

Optimise your losses

If you have a ton of Bitcoin and want to sell it, but selling it means you'll be at a loss, then you're going to want to hold onto it for a bit longer. However, this isn't always the best decision in terms of tax. It is sometimes a good idea to sell your crypto at a loss if the overall gain in the upcoming tax year exceeds the tax-free threshold.

You will need to offset your gains and losses against each other each tax year so you ensure you don't earn over the annual exempt amount. If you have a loss, it needs to be registered with HMRC, and you may even be able to deduct some costs that you had to pay out when buying and selling your cryptocurrency.

Transfer between spouses

This method won't apply to single people, but if you're in a couple or married, you may be able to transfer your cryptocurrency to your significant other tax-free. This is because British tax law has a slight loophole that allows you to transfer some of your assets to a partner as a gift.

How this works is that you transfer your cryptocurrency to your spouse or vice versa, and you can both use these against gains in your capital gains tax. This means you can basically double your allowance as a couple, leaving you with a grand total of £24.600. You have to be married or in a civil partnership for this to work, and you cannot be separated or living apart.

Invest in a pension

Have you set up a pension already? If not, it may be in your best interest to do so. When you make a contribution to your pension based on your net relevant earnings, you can reduce your capital gain tax from 20 per cent to 10 per cent. This is a huge amount and means you can minimise your cryptocurrency's overall tax.

No matter who you are, a pension will extend the upper limit of your income tax band. It will depend on the amount you contribute in total, so if you are looking to pay less tax on your cryptocurrency, you may have to put a bit more money into the pot each year.

Final thoughts

Cryptocurrency is a new and exciting type of finance in which many people are trading and making big gains. However, it can be a bit disheartening when you discover you must pay a large tax on your digital coins. Luckily, you can try the above methods and minimise your overall tax amount for the year.

If you need some more advice on how to maximise your capital gains tax when it comes to your cryptocurrency, you can always speak to a specialised accountant at Braant. We'll happily help you deal with your finances, no matter what kind, and ensure you get the most out of the tax year.