Cryptoasset Policy Team
HM Revenue & Customs
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Date: 4 September 2026

Subject: Response to the technical consultation on draft Finance Bill 2026-27 legislation — Taxation of Stablecoins

Dear HMRC,

Aave Labs welcomes the publication of draft legislation on the taxation of stablecoins, and we are grateful to the team for the considerable work that has gone into it. The draft represents a substantial advance in clarity, administrability and fidelity to economic substance.

We responded to the Call for Evidence on 7 May 2026, and we are pleased to see that a number of the points we raised have been taken on board. In particular, qualifying stablecoins are exempted from capital gains tax without a de minimis threshold or cap; the regime is not confined to sterling-denominated stablecoins; and returns on lending arrangements are characterised as interest rather than as miscellaneous income. Each of these was a recommendation in our submission, and each has been reflected in the draft. We are grateful for the openness with which HMRC has engaged with industry through the Call for Evidence and the industry roundtables, and the draft is materially better for that engagement.

We write now to suggest targeted refinements. Our recommendations are not directed at the architecture of the draft, which we think is sound, but at a small number of points where the drafting would benefit from clarification or where a consequence appears unintended. We also raise one point that falls outside this measure: because it settles what an eligible stablecoin is, it creates the occasion to consider whether such assets should be capable of being held within the savings regime, and we address that at the end.

Aave Labs is the core contributor to the Aave Protocol, the largest decentralized collateral protocol globally, with $18.4 billion in total value locked as of September 2026 across over fifteen blockchain networks. We have direct experience of how the transactions addressed by this measure operate in practice, and of where tax rules and protocol mechanics fail to meet.

We are responding separately on the proposed cryptoasset loans and liquidity pools measure. We note that the two drafts are interdependent: new section 380B of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) takes the meaning of several defined terms, including the measure of the return, from new section 151YB of the Taxation of Chargeable Gains Act 1992 (TCGA), which appears in the other draft. A reader of either draft alone cannot determine the treatment of a lending return. We suggest the final legislation and the accompanying guidance make that relationship explicit.

Provisions we particularly welcome

We set out below why we regard the three features noted above as correctly resolved, in the hope that they are not revisited as the drafting is finalised.

The absence of a de minimis threshold is what makes the exemption administrable. A threshold would reintroduce the tracking obligation the exemption removes, since a holder cannot know whether a gain falls below a threshold without first computing it. The compliance cost of that computation, across the routine payment and settlement activity the regime is directed at, would exceed the revenue at stake by a wide margin.

The extension of new section 269A TCGA to stability maintained by reference to sterling "or another currency" reflects the market as it is rather than as it may become. The stablecoin market remains predominantly denominated in United States dollars, and we would caution against narrowing the scope in anticipation of a shift to sterling denomination that has not yet occurred. A regime confined to sterling would exempt very little of the activity it describes. We note that the drafting is broader than the approach we proposed in May, which was to extend the exemption to a defined list of major currencies; the general formulation adopted is preferable, because it will not require amendment as the market develops.

The characterisation of a qualifying return as interest under new section 380B ITTOIA aligns the treatment of economically equivalent lending arrangements and removes an inconsistency that has distorted user behaviour without serving any evident policy purpose. It also gives holders access to the Personal Savings Allowance, which is the appropriate treatment for a return that is, in substance, a return on a cash-like deposit.

We would add a fourth point, on the backing limb. We note that the requirement for assets to be held has been retained, and that the only exclusion is of assets of the same type as the cryptoasset itself. We think both decisions are correct. It has been suggested that the backing limb might be removed altogether, on the footing that a taxpayer cannot readily verify the composition of a stablecoin's backing. The difficulty is real, but removing the limb would bring within the regime assets that maintain a stable value without holding anything at all, and the distinction between a stablecoin that is backed and redeemable and one that is not is the distinction that makes the first money-like and the second closer to an investment product. The limb as drafted is also properly neutral as to the backing model: it asks whether a sufficient amount of assets is held, not whether those assets exceed the liability, so that a cryptoasset backed at par and one backed in excess of par each satisfy it. That neutrality is right, and we would not wish to see the limb narrowed to a particular form of backing, such as fiat reserves held by a centralised issuer, which would exclude much of the market without serving the policy. Overcollateralised stablecoins backed by assets held onchain rather than by reserves held by an issuer — including GHO, which is minted within the Aave Protocol against collateral supplied to that protocol, and which we described in our response of 7 May 2026 — satisfy the limb as it is presently drafted, and would not satisfy a limb confined to fiat reserves.

Ⓑ Interests in eligible stablecoins and tokens representing claims to them

Two features of this measure address the treatment of a right representing a claim to eligible stablecoins rather than a holding of them directly. The exemption extends not only to a cryptoasset that was an eligible stablecoin on the relevant day but also to an interest in a cryptoasset. And for companies, a debt is treated as a money debt where it falls to be settled by the transfer of an eligible stablecoin "or a debt which otherwise falls within this subsection", which brings nested claims, and tokens representing them, within the loan relationship treatment. We welcome both. Together they recognise that a claim to an eligible stablecoin should not be treated less favourably than the stablecoin itself, which was among the points we raised in May.

The matter on which we seek confirmation is how these provisions relate to the treatment of receipt tokens in the proposed cryptoasset loans and liquidity pools measure. For an individual, a token evidencing a deposit of eligible stablecoins into a lending arrangement is addressed by the tokenised asset carve-outs and the exemption for interests in single cryptoasset lending arrangements in that measure. For a company, the same economic position is addressed by the money debt provisions in this measure. The two routes sit in different instruments and operate by different mechanisms, and it is not evident on the face of either that they produce the same result.

A question of characterisation underlies both routes, and we set out our position on it. Where a holder deposits eligible stablecoins into an arrangement and receives a token evidencing the deposit, our view is that the holder continues to hold the stablecoins. The token performs the function of a warehouse receipt for fungible goods: it evidences the holder's entitlement and facilitates its transfer, but it is not itself the subject matter of that entitlement. The holder's economic position is unchanged throughout, consisting of a fully redeemable claim to the same quantity of the same asset together with any accrued return. On that analysis no disposal arises on deposit or on withdrawal, and the exemption applies to the stablecoins themselves without the need for any relief. We advanced the same characterisation in our submission of 10 July 2026 to the House Committee on Ways and Means, where we proposed that a token evidencing a loan of digital assets be disregarded for so long as the assets loaned are treated as continuing to be held by the lender.

We recognise that the proposed cryptoasset loans and liquidity pools measure proceeds on a different basis, treating the interest acquired as an asset in its own right and relieving the disposal that is taken to arise on deposit. We do not ask that this architecture be revisited at this stage. It produces the right outcome for arrangements within its scope, and we would not wish to delay a measure that resolves a long-standing difficulty. Our concern is confined to arrangements falling outside that scope. Where an arrangement does not satisfy the conditions for a single cryptoasset lending arrangement, a holder of a token representing a claim to eligible stablecoins should not be in a worse position than a holder whose arrangement does satisfy them. On our primary analysis that follows automatically, because the holder has continued to hold the stablecoins throughout. If that analysis is not accepted, the same result should follow from the exemption in this measure, on the footing that the token is at least an interest in a cryptoasset that was an eligible stablecoin.

We should record, for the avoidance of doubt, that nothing in our alternative submission should be taken as accepting that the deposit of a cryptoasset into an arrangement of this kind is a disposal as a matter of general principle. Our position is that it is not, and the point matters beyond the treatment of stablecoins: where the asset deposited is not an eligible stablecoin, the only protection against a charge on deposit is the relief in the other measure, which is available to individuals alone.

Recommendation: We recommend that guidance confirm, as a primary matter, that a token evidencing a deposit of eligible stablecoins is to be disregarded for so long as the holder retains an unimpaired entitlement to the return of those stablecoins, so that the holder is treated as continuing to hold them. In the alternative, if that treatment is not accepted, we recommend confirmation that an interest in a cryptoasset, for the purposes of the exemption, includes a token or other right representing a claim to eligible stablecoins, whether or not the arrangement under which the claim arises is a single cryptoasset lending arrangement. In either case we ask for confirmation that a claim held by an individual and the equivalent claim held by a company produce the same outcome.

© The third limb of the definition: design purpose or stability design

An eligible stablecoin must, among other conditions, be "designed to be used as a means of payment or settlement". We suggest that this limb would be better framed by reference to the design of the asset's stability mechanism than by reference to the purpose for which it is intended to be used, and we set out why.

The Call for Evidence generated responses on a substance-based test. In our own response we proposed that a qualifying stablecoin be defined as any cryptoasset that references a fiat currency, maintains stability through verifiable backing assets, whether fiat reserves or overcollateralised cryptoassets, and is designed and operated to maintain par value. The first two of those limbs are reflected in the draft, and we are grateful for that. The third is not: in place of a test directed at whether the asset is designed to hold its value, the draft asks what the asset is designed to be used for.

That substitution creates three difficulties. The first is evidential. Whether an asset is designed and operated to maintain par value is capable of objective demonstration from its mechanics — whether assets are held to support the stable value and on what terms the asset may be redeemed for them, the relationship between those assets and the corresponding liability, the arrangements for dealing with positions that become deficient, and the response of the mechanism to deviation from par can all be observed and verified, in many cases continuously and by anyone. Whether an asset is designed to be used for a particular purpose is a question about intention, which an issuer cannot conclusively evidence and which a holder cannot verify at all. A holder acquiring a stablecoin on the secondary market has no means of establishing what its issuer designed it to be used for, yet the holder's exemption depends on the answer.

The second is that use purpose is a poor proxy for the policy objective. The rationale set out in the Call for Evidence was that stablecoins used as a means of exchange should not be taxed as though they were held for capital appreciation. What distinguishes those two cases is whether the asset is designed to hold a stable value, not the particular species of transaction in which it is used. An asset designed and operated to maintain par value is not held for capital appreciation, whatever the transactions in which it is deployed.

The third is that the limb as drafted invites a narrow reading. A significant category of stablecoins is designed principally for the settlement of obligations arising within onchain financial arrangements — the repayment of borrowings, the settlement of collateralised positions and the discharge of obligations between participants — rather than for retail payment. The statutory language accommodates that, since settlement is expressly included alongside payment, and we read the limb as satisfied in those cases. But because the policy paper frames the rationale in terms of use as a means of exchange, a reading confined to retail payment is available. It would exclude assets whose function is settlement in the ordinary commercial sense of the word, and would tax materially identical economic positions differently according to the type of counterparty a holder transacts with.

Recommendation: We recommend, as a primary matter, that the third limb be framed by reference to whether the cryptoasset is designed and operated to maintain a stable value in relation to the referenced currency, rather than by reference to the purpose for which it is designed to be used. That formulation is verifiable from the asset's mechanics, it tracks the policy rationale more closely, and it does not require a holder to establish an issuer's intention. In the alternative, if the limb is retained in its present form, we recommend that guidance confirm that a cryptoasset designed for the settlement of obligations arising under onchain financial arrangements satisfies it, and that the limb is directed at distinguishing stablecoins from cryptoassets held for capital appreciation rather than at distinguishing retail payment from commercial settlement.

D The widely available condition, and the position of the issuer

A cryptoasset is not an eligible stablecoin unless cryptoassets of its type are widely available. That condition has two limbs: that they are made available to a substantial number of persons who are not connected and are acting independently, and that it is reasonable to assume that they are or will be traded with sufficient frequency and volume to constitute an active market.
The two limbs are expressed to different standards. The second is a matter of reasonable assumption and is expressly forward-looking — "are or will be" traded. The first is neither. It asks whether cryptoassets of the type are made available, as a matter of present fact on the relevant day.

The consequence is that the first limb is the binding constraint, and the forward-looking language in the second does not relieve it. If, on the relevant day, cryptoassets of the type are not yet made available to a substantial number of unconnected persons acting independently, the condition fails however reasonable it may be to assume that an active market will develop. The mitigation the second limb appears to offer is therefore unavailable in precisely the case where it is needed.

Because the relevant day is ordinarily the holder's date of acquisition, that outcome is permanent as regards holdings acquired before the market developed, however liquid the asset later becomes. Two holders of the same asset are treated differently by reference only to when each acquired it. The burden falls most heavily on newly issued stablecoins, including sterling-denominated stablecoins, which is to say the assets the policy is most concerned to encourage. It also requires a holder to form a predictive judgement at acquisition and to be able to defend it years later, which is not a satisfactory basis for a binary exemption.

Recommendation: We recommend that the first limb be expressed to the same standard as the second, so that it is satisfied where cryptoassets of the type are, or are reasonably expected to be, made available to a substantial number of persons who are not connected and are acting independently. That would align the two limbs, would require no departure from the relevant day architecture, and would make the condition materially easier for taxpayers to apply in practice.

In the alternative, we recommend that the condition as a whole be capable of satisfaction by reference to either the date of acquisition or the date of disposal, so that an asset which develops an active market is not permanently disqualified as regards holdings acquired earlier.

One further point on the perimeter, which we raise because the drafting is presently correct and we would not wish it to change. The definition contains no condition as to the issuer: nothing turns on where the issuer is established, whether it is subject to regulation, or whether it is authorised in the United Kingdom. In our response of 7 May 2026, we argued that the test should turn on the economic substance of the asset rather than on the location or regulatory status of its issuer, and we are grateful that the draft reflects that. Because the regulatory and tax perimeters serve different purposes, we would be concerned if the tax definition were later read as importing the regulatory one. The great majority of stablecoins in use today, including those most widely held by United Kingdom taxpayers, are issued outside the United Kingdom. A tax definition that required an authorised or United Kingdom-established issuer would exclude most of the activity the measure is intended to address, and would tax two holders of economically identical assets differently by reference to a characteristic of the issuer that neither holder controls or can readily verify.

Recommendation: We recommend that guidance confirm that the eligible stablecoin definition operates independently of the regulatory perimeter, so that a cryptoasset satisfying the statutory conditions is an eligible stablecoin irrespective of the establishment, regulatory status or authorisation of its issuer.

Ⓔ Align the transitional treatment of individuals with that of companies

A person other than a company holding an eligible stablecoin immediately before 6 April 2027 is treated as disposing of it at market value and immediately reacquiring it, with any resulting gain or loss treated as accruing on 6 April 2027. For a holder of a stablecoin denominated otherwise than in sterling, the gain so crystallised is the sterling exchange movement since acquisition. There are no proceeds from which to satisfy the resulting liability, no de minimis threshold, and no election to defer.

The transitional applying to companies proceeds differently: the notional disposal is made at tax-adjusted carrying value, with the consequence that no gain is ordinarily crystallised on entry into the new regime.

We do not suggest that a rebasing mechanism is inappropriate; some means of drawing a line at commencement is plainly required, and we accept that the alternative of carrying pre-commencement gains into an exempt regime would be unacceptable. Our concern is the difference in treatment between the two classes of holder. As drafted, the move onto the new basis crystallises a charge for individuals and not for companies, and those most affected are the individuals who have held stablecoins for the longest period and across the widest range of exchange rates — the holders whose compliance burden the exemption is intended to relieve. We think this is an unintended distributional consequence rather than a policy choice.

There is a further consideration. The impact note published alongside the companion measure on cryptoasset loans and liquidity pools records that it will affect about 700,000 individuals, and that those individuals will benefit from a framework which is easier to understand and which more closely aligns with the economic substance. The corollary is that the treatment those individuals have been applying until now has been neither. A charge that crystallises on the first day of the new regime, measured by reference to the whole of the period in which the treatment was unclear, asks the taxpayer to pay for entry into the relief that is intended to resolve that uncertainty. We address the wider point about commencement in our separate response on that measure.

Recommendation: We recommend that the gain arising on the deemed disposal be treated as not chargeable, or that holders be permitted to elect for the deemed disposal to be treated as made at acquisition cost. Either would achieve the rebasing the provision requires without a dry charge on commencement. More generally, we recognise that the treatment of individuals and companies properly differs in many respects, and we do not suggest the two regimes should be made uniform. We ask only that, where the difference arises from the mechanics of moving onto a new basis rather than from the substantive treatment that follows, HMRC continue to work towards alignment.

Ⓕ Provide a practical convention for continuously accruing returns

Section 380B ITTOIA treats a qualifying stablecoin return as interest. In a rebasing arrangement the return accrues continuously and is reflected in the holder's balance as it accrues, rather than being paid at intervals. Applied literally, an accruals analysis would require measurement at every moment at which the balance changes.

We support the characterisation of the return as interest and do not seek to reopen it. What is required is a convention by which the amount arising in a period can be determined without continuous measurement.

Recommendation: We recommend that guidance confirm that the return arising in a tax year may be computed by reference to the movement in the holder's entitlement between the beginning and the end of the year, adjusted for supplies and withdrawals during it, and that a return recognised on withdrawal is accepted where that basis is applied consistently from year to year.

Ⓖ Confirm that the interest characterisation does not give rise to a duty to deduct

Section 380B ITTOIA provides that a qualifying stablecoin return is treated as interest for the purposes of that Act. The duty to deduct a sum representing income tax from payments of yearly interest arising in the United Kingdom is imposed not by ITTOIA but by Part 15 of the Income Tax Act 2007. We therefore read the draft as not extending any duty to deduct to returns on stablecoin lending arrangements, and we support that reading.

We raise the point because the consequences of the contrary reading would be severe and because the question is not addressed in the draft or the accompanying policy paper. Two features of these arrangements make explicit confirmation valuable. The first is that the deeming language is general. The second is that these arrangements typically have no fixed term and are repayable on demand, and the authorities on whether interest on an indefinite advance is yearly interest are not straightforward; a participant should not have to resolve that question in order to know whether a deduction obligation exists.

We would also record why we consider the absence of a deduction obligation to be the correct outcome and not merely a drafting consequence. In a decentralized lending arrangement there is no person in the position of the borrower who is able to deduct. The return arises from the operation of the arrangement and accrues to the participant's entitlement; there is no payer who makes a payment from which a sum could be withheld, no counterparty who knows the identity or residence of the recipient, and no person with the standing to account to HMRC for a deducted amount. An obligation to deduct could not be discharged, and the consequences of non-compliance would fall on participants and contributors rather than on any person able to remedy it. The visibility that deduction would otherwise provide is in any event available through reporting under the Cryptoasset Reporting Framework and through self assessment, which together give HMRC a proportionate view of the relevant activity. We made this recommendation in our response of 7 May 2026 and have made the equivalent recommendation to the U.S. House Committee on Ways and Means in relation to crypto tax bills before that Committee.

A related question arises for companies. Where an eligible stablecoin held by a company is treated as a money debt owed to the company, and a transaction in eligible stablecoins is treated as a transaction for the lending of money, we would not expect that treatment to give rise to a duty to deduct in circumstances where none would otherwise arise. We would welcome confirmation on that point also.

Recommendation: We recommend that guidance confirm that section 380B ITTOIA does not import any duty to deduct under Part 15 of the Income Tax Act 2007, and that no duty to deduct arises in respect of returns on cryptoasset lending arrangements, whether under the income tax or the corporation tax provisions. If HMRC considers that a deduction obligation may be appropriate in some circumstances, we ask that it be the subject of separate consultation and that it be confined to identifiable intermediaries who make payments to identified recipients and are in fact able to comply.

Ⓗ Exchange gains and losses on non-sterling eligible stablecoins held by companies

Where a company holds an eligible stablecoin it is treated as holding a money debt owed to it, and the holding is brought within the loan relationships rules in Part 5 of the Corporation Tax Act 2009. Where the stablecoin maintains its value by reference to a currency other than sterling, that treatment will produce exchange gains and losses for a company whose functional currency is sterling, and those amounts will fall to be brought into account under Part 5 as they arise.

The draft addresses one aspect of this, in providing for amounts recognised in other comprehensive income to be brought into account for the purposes of Part 5. It does not address how the existing regime for exchange gains and losses applies more generally, and we would welcome confirmation on three points in particular: whether the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 apply to an eligible stablecoin, and if so whether such an asset may be a hedging instrument or a hedged item for those purposes; whether the matching rules have any application; and how the treatment operates where a company prepares its accounts in a currency other than sterling.

The practical significance is considerable. Bringing eligible stablecoins within the loan relationships rules means that a company's exchange gains and losses on them are taken into account as they arise, consistently with the treatment of foreign currency held by a company. Because eligible stablecoins are predominantly denominated in currencies other than sterling, and are likely to remain so for the time being, this will be the ordinary case rather than the exception, and the interaction with the existing regime for exchange gains and losses will arise for most corporate holders from the first period. It is also, in our experience, precisely the kind of question that is far less costly to settle in guidance published alongside the legislation than to resolve in correspondence with individual taxpayers afterwards.

Recommendation: We recommend that guidance confirm how exchange gains and losses on non-sterling eligible stablecoins are to be dealt with by companies, including whether the Disregard Regulations and the matching rules apply, and how the position is affected where a company's functional or presentational currency is not sterling. We would be glad to provide worked examples of the holdings in question if that would assist.

① A related matter falling outside this measure: ISA eligibility and subscription

We raise one point which falls outside the scope of this measure. We do so because it follows directly from the policy this measure implements, and because the team may wish to pass it to colleagues responsible for the Individual Savings Account Regulations 1998. We do not ask for any change to this measure on account of it.

The stated aim of the measure is to treat eligible stablecoins more like money for tax purposes where they are used as a means of exchange. The savings regime does not yet reflect that policy. Until now there has been an evident reason for that: there has been no settled statutory meaning of a stablecoin, and the Individual Savings Account Regulations could not sensibly refer to a class of asset that United Kingdom law had not defined. This measure supplies that definition. Once "eligible stablecoin" is a defined term, tested by reference to the assets held to support its value, its use as a means of payment or settlement, and its wide availability, an amendment to the savings regime would require no new definitional work of its own: it could cross-refer to a term Parliament has enacted, in the same way that the amendment admitting cryptoasset exchange-traded notes cross-referred to admission to trading on a United Kingdom recognised investment exchange. The enactment of this measure is therefore the natural occasion on which to consider the question, and there are two respects in which it might be addressed.

The first concerns subscription. Regulation 4 of the 1998 Regulations requires a subscription to be made by payment to the account manager of a sum of the individual's cash. Cash in that context is not confined to legal tender. HMRC guidance treats a subscription as satisfying the requirement where it is paid by cheque, direct debit, charge card, credit card, telegraphic transfer or standing order, and the accepted methods have been extended as payment technology has developed, most recently to accommodate variable recurring payments. What the requirement does is distinguish a payment of money from a subscription in specie, which is not permitted except for shares from a Schedule 3 SAYE option scheme or a Schedule 2 share incentive plan.

We are not asking for subscription in specie. The question is narrower: whether a payment made by an investor in a qualifying stablecoin, which the manager converts to sterling on receipt, is a payment of a sum of the individual's cash. On that arrangement the manager receives sterling, the subscription is recorded in sterling, and the investments acquired are ordinary qualifying investments; the stablecoin is the payment method rather than the subject matter of the subscription, which is the same position as a card payment or a telegraphic transfer. Confirmation to that effect, or the addition of stablecoin payment to the accepted methods, would be a modernisation of the mechanics rather than any change to the wrapper, and it would align the savings regime with the direction this measure takes.

The second point, and the more substantive, concerns what may be held. The cash component is in substance a wrapper for cash and cash equivalents rather than for deposits alone, and we see no principled basis on which a qualifying stablecoin should be excluded from it. Alternative finance arrangements within sections 47 and 49 of the Finance Act 2005 are qualifying investments for that component on the express basis that they provide a similar type of return to a deposit savings account, notwithstanding that they are not deposits and pay no interest. Money market funds are qualifying investments notwithstanding that they are neither deposits nor capital-certain and do not carry deposit protection. The test applied to the cash component is therefore functional rather than formal, and a stablecoin meeting the eligible stablecoin definition in this measure — backed, and designed for use as a means of payment or settlement — is on any view no further from cash than a money market fund unit. Where a stablecoin is instead lent, so that the return is earned by putting the asset at risk, the innovative finance component is the natural home, consistent with the position of peer-to-peer lending there and with the admission of cryptoasset exchange-traded notes to that component with effect from 6 April 2026.

Recommendation: We recommend that these points be referred to the team responsible for the Individual Savings Account Regulations, and we would welcome the opportunity to make the case more fully, whether by Budget representation or otherwise. We would be content for any such category to be drawn narrowly, by reference to the eligible stablecoin definition in this measure.

We would welcome the opportunity to discuss any of the above, and would be glad to provide worked examples. We are grateful for the care evident in the draft and for the Government's continued engagement with industry.

Respectfully,

Linda Jeng
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