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Decoding VAT on Cryptocurrencies in the UAE

An in-depth analysis of the VAT implications of cryptocurrency activities, including mining, holding, trading, and other key areas

INDEX

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FOREWORD

The introduction of cryptocurrency marked a defining moment in the world of digital finance. Perhaps the largest reform that fundamentally reshaped how value is created, stored, and exchanged worldwide.

The United Arab Emirates (UAE), known for its visionary leadership and rapid technological developments, has positioned itself at the forefront of this transformation. Through its forward-thinking regulatory frameworks and commitment to innovation, the UAE has emerged as a global hub for blockchain and cryptocurrency projects, driving confidence among investors, entrepreneurs, and policymakers alike.

Cryptocurrencies have gained significant global attention, yet they are often perceived as complex and filled with technical terms and uncertainty. This publication aims to make the subject simple and accessible by providing a clear understanding of cryptocurrencies, their uses, and Value Added Tax (VAT) implications in the UAE. Throughout these pages, you will explore the lifecycle of cryptocurrencies - from their creation and circulation to their eventual disposal, along with how VAT principles apply at each stage.

This work reflects the collaborative efforts of the Dhruva team and stands as a testament to our commitment to knowledge-sharing in an emerging and rapidly evolving domain. We believe that this will serve as a beacon of knowledge and will provide a more comprehensive understanding of cryptocurrencies and their tax impact.

Happy reading!

1. Background

HOW IT STARTED

The 2008 global financial crisis caused many people to lose trust in traditional banks. In response, an individual or group known as Satoshi Nakamoto introduced Bitcoin, a cryptocurrency. The idea was to make a digital money that people could send directly to each other without needing a bank. Bitcoin works on a technology called blockchain, which provides a secure record of all transactions.

Since Bitcoin's launch, thousands of other cryptocurrencies (“cryptos”) have emerged, causing the market to grow rapidly. This growth has attracted significant interest and investment, but it also carries major risks, including volatile prices and security concerns. To address these challenges, governments worldwide are creating rules and regulations to make the use of cryptocurrency safer and more reliable.

WHAT IS A CRYPTOCURRENCY?

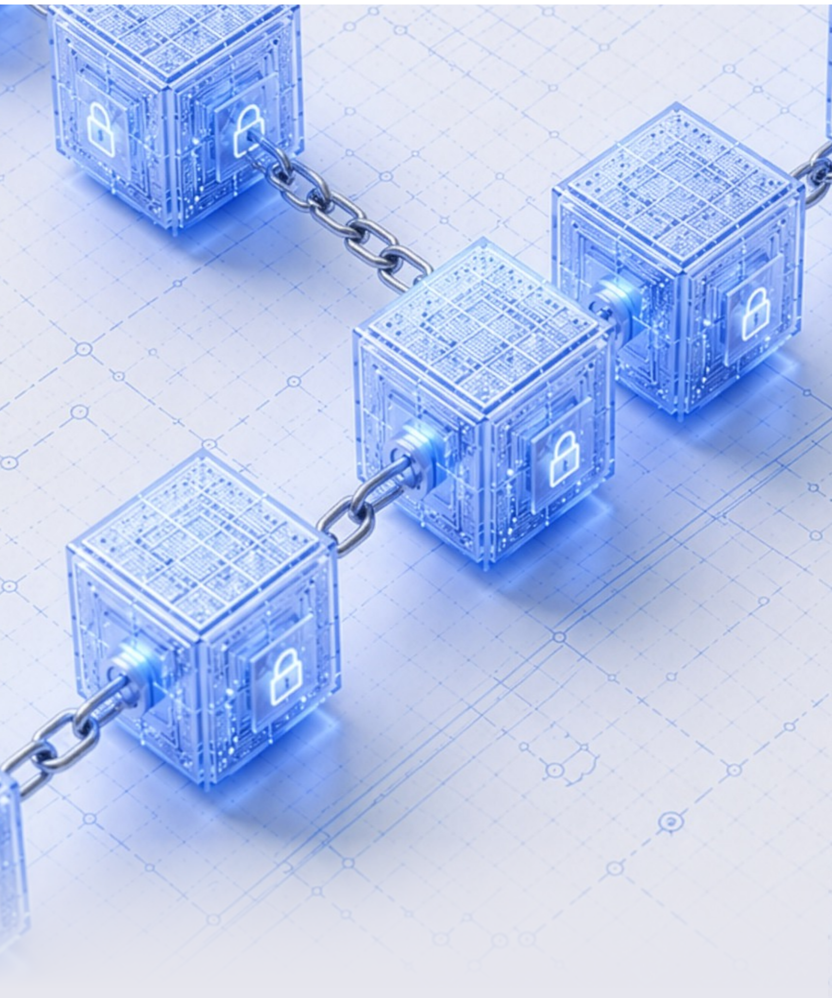
A cryptocurrency is a digital or virtual currency that is meant to be a medium of exchange.

There's a limit to how many units can exist	Easily verifies the transfer of funds	Operating independent of a bank	Allows new units to be added only after certain conditions are met

A cryptocurrency is a form of digital asset that exists only electronically, with every transaction recorded on a secure public ledger called a blockchain. Unlike the traditional money in a bank account, it is not issued or controlled by any central authority, like a government or a bank. Instead, it operates on a decentralized network, where transactions are verified by cryptographic algorithms and consensus mechanisms. Two commonly used consensus mechanisms are Proof of Work (PoW) or Proof of Stake (PoS).

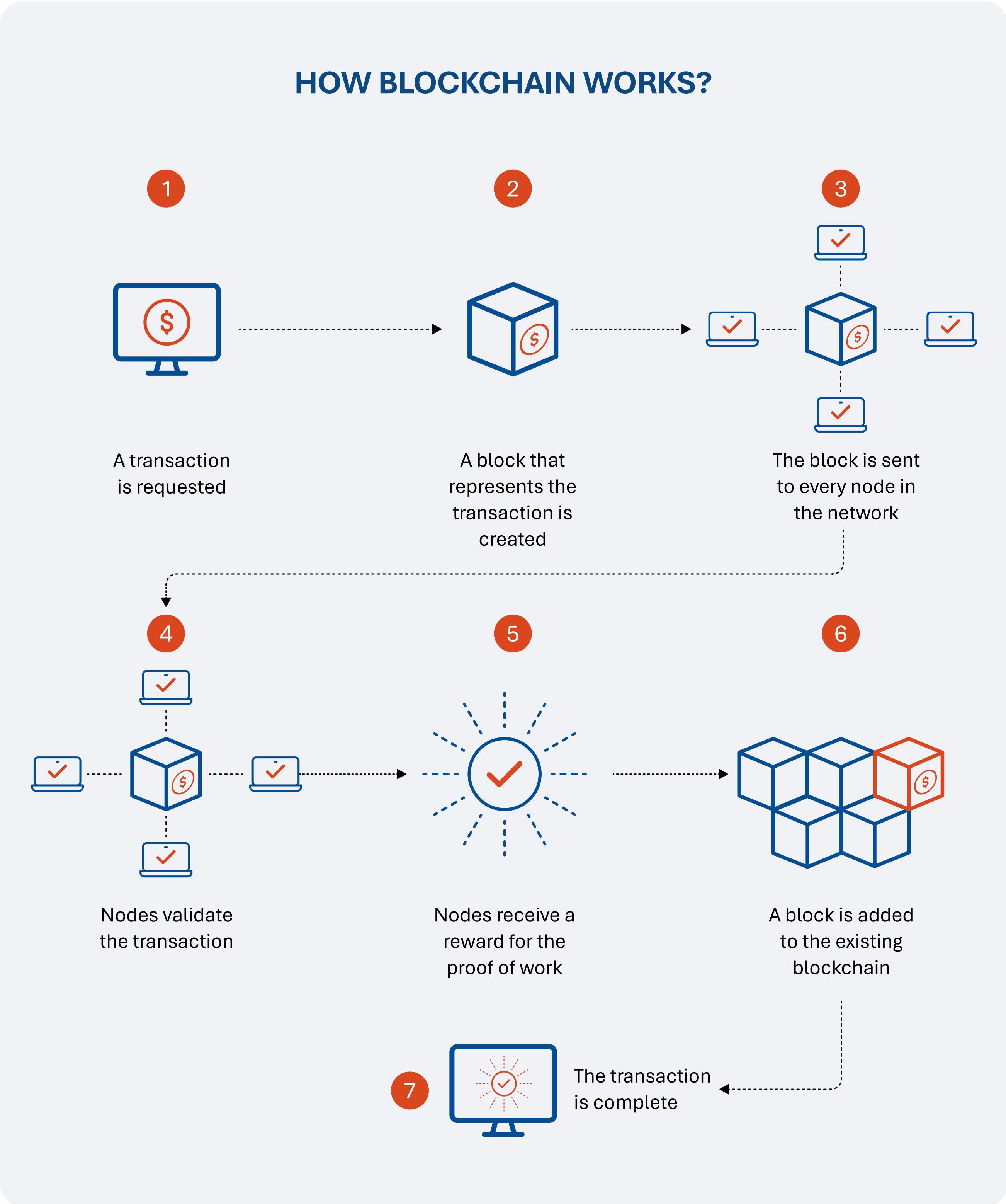
Under PoW, participants known as miners compete to solve complex mathematical problems, and the first successful validator earns the right to add transactions to the blockchain.

While in PoS, transaction validation is carried out by participants who lock up or stake their digital assets with validators selected based on predefined rules such as the amount staked, rather than computational effort.



Blockchain Technology: At the heart of every cryptocurrency lies a technology called blockchain – a secure, transparent, and tamper-proof digital ledger. It is possible to think of it as a shared record book, maintained not by a single authority, but by a decentralized network of computers. This record book is divided into "blocks", each containing a batch of verified transactions. Once a block is full, it is permanently linked to the block before it, forming a continuous and chronological chain of information. Together, these connected blocks make up what we call a blockchain.

The most revolutionary feature of a blockchain is that it is decentralized. No single person, company, or government controls it, instead all users collectively maintain and verify the record book. This creates a system built on transparency and trust, as every transaction is permanently visible.



Some of the most widely known cryptocurrencies include Bitcoin, Ether (ETH), Binance Coin (BNB), and Tether (USDT). In the UAE, emerging digital assets such as EmaratCoin (AEC), United Emirate Decentralized Coin (UEDC), and dirham-pegged AE Coin reflect the local uptake of cryptocurrency innovation, though their market adoption and regulatory frameworks are still developing.

USES AND FUNCTIONS OF CRYPTOCURRENCY

Cryptocurrencies serve three main purposes: as a medium of exchange enabling direct value transfers without intermediaries, a store of value that holds worth overtime, and a unit of account used to price goods and services.

In practice, cryptocurrencies are commonly used for:

- **Investment and Trading:**
  Buying, holding, or trading for profit.

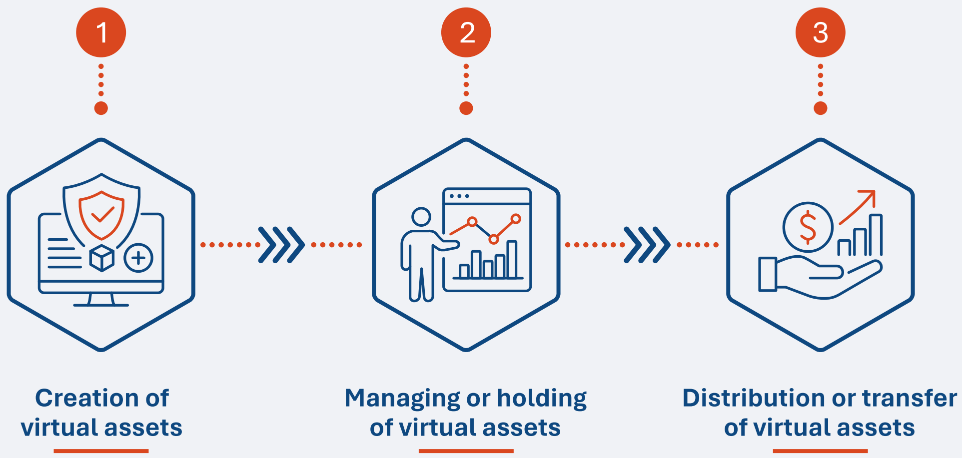
- **Payments:**
  Accepted by many businesses globally for goods and services.

- **Remittances:**
  Enabling faster and cheaper cross-border transfers.

- **Fundraising:**
  Used in Initial Coin Offerings (ICOs) to raise capital through decentralized crowdfunding, conceptually similar to IPOs, but typically without issuing equity or ownership in a legal entity.

LIFECYCLE OF CRYPTOCURRENCY

The lifecycle of a cryptocurrency may vary depending on its design, intended use and underlying operating model. The diagram below provides a high-level overview of the typical stages involved:



I. Creation

Cryptocurrencies are generally created through mining or ICOs:

- **Mining** secures the blockchain and generates new coins by solving complex mathematical problems. In return, the miners (participants who contribute computational power to validate transactions on the blockchain) receive newly minted cryptos as rewards.

- **ICOs** are broadly similar to IPOs as a fundraising mechanism, whereby newly created digital assets are issued to investors in exchange for fiat currency or established cryptocurrencies, resulting in the introduction of such assets into circulation.

- **Hard forks and airdrops** represent non-cash creation mechanisms. Under a hard fork, new digital assets are issued automatically to existing holders following a split in the blockchain protocol. In contrast, airdrops are a promotional or network-growth strategy, without the recipient providing any direct consideration.

II. Managing / holding

Once cryptocurrencies are created, they are stored in wallets, which can either be hot or cold wallets based on their storage mechanism. Managing them involves securing private keys, backing up wallets, monitoring holdings, and protecting against theft. Holders may track portfolio performance, diversify assets, and use security measures like multi-signature wallets and two-factor authentication to maintain control and safety.

III. Distribution / transfer

Cryptocurrencies may eventually be transferred or disposed of when holders sell them for fiat currencies (such as converting Bitcoin into AED or USD), exchange them for other cryptocurrencies, or use them to purchase goods and services. Although this represents the final stage for the original holder, the assets continue circulating as they move into the hands of new users.

RECENT DEVELOPMENTS IN CRYPTOCURRENCY

The UAE continues to establish itself as a pioneering hub for virtual assets and blockchain innovation by creating an environment where digital assets can thrive responsibly, while setting a global benchmark for innovation, governance, and investor confidence.

This position has been further reinforced by recent international recognition. According to the *Henley & Partners Crypto Wealth Report 2025*[1], the UAE ranks among the world's top five crypto-friendly jurisdictions for high-net-worth individuals (HNWIs). The country achieved a perfect score of 10/10 for tax-friendliness in the Henley Crypto Adoption Index, driven by zero taxes on cryptocurrency trading, staking, and mining. This positions the UAE alongside Singapore, Hong Kong, Switzerland, and the United States as one of the world's most attractive destinations for digital asset investors.

The UAE's virtual-asset ecosystem has evolved through the following milestones:

2023

Dubai and Abu Dhabi were ranked among the top 10 global crypto hubs, supported by active regulatory bodies, investor-friendly tax policies, and robust crypto infrastructure.

2024

Regulatory confidence deepened with amendments to the VAT Executive Regulations which formally introduced the definition of “virtual assets” and clarified their classification within the UAE VAT framework, and a Public Clarification[2] issued by the Federal Tax Authority (FTA) on cryptocurrency mining, setting the foundation for subsequent administrative guidance on cryptocurrency-related activities.

2025

Focus shifted to real-world applications, with major initiatives to tokenize real estate and integrate blockchain into government services like customs and logistics.

The UAE's commitment to future-ready digital infrastructure was further highlighted by the landmark DMCC Crypto Tower announcement[3], designed as a dedicated hub supporting Dubai's expanding blockchain community and Web3 ecosystem.

[1] https://www.henleyglobal.com/publications/crypto-wealth-report-2025
[2] VATP039 – Cryptocurrency mining issued on 28 April 2025
[3] https://dmcc.ae/latest-news/dmcc-and-reit-development-unveil-landmark-crypto-tower-in-jlt

REGULATORY LANDSCAPE FOR VIRTUAL ASSETS IN THE UAE

Multi-Regulator framework:

The regulation of virtual assets in the UAE is shared among several authorities, the Central Bank of the UAE, Securities and Commodities Authority (SCA), the Dubai Financial Services Authority (DFSA) in DIFC, Financial Services Regulatory Authority (FSRA) in ADGM, and Virtual Assets Regulatory Authority (VARA) in Dubai. Each authority governs activities within its respective jurisdiction, aligning with international standards on anti-money laundering, compliance, and consumer protection.

VARA licensing regime:

VARA has introduced a comprehensive licensing regime covering key activities such as advisory, broker-dealer, custody, exchange, lending and borrowing, management and investment, settlement, and token issuance. This structure provides regulatory certainty while reinforcing Dubai's position as a leading global hub for virtual asset innovation.

Regulatory coordination and legal clarity:

The framework is supported by Federal Decree-Law No. 20 of 2018 and the SCA's Guidance for Crypto Asset Activities, along with regulations under VARA, DIFC, and ADGM, creating a cohesive compliance environment across jurisdictions.

VAT IMPLICATIONS OF CRYPTOCURRENCIES IN OTHER JURISDICTIONS

As cryptocurrencies gain popularity, they are no longer just a digital curiosity; they also have real-world financial implications, which include VAT. Initially, countries faced challenges in classifying cryptocurrency for VAT purposes, as they do not fit neatly into traditional categories like goods, services, or money. Over time, the VAT treatment of cryptocurrencies has evolved differently across jurisdictions, shaped by regulatory interpretation and practical application.

European Union (EU)

treated as a form of fiat currency, making exchange transactions exempt from VAT.

United Kingdom

treated as property for tax purposes, exchanging for fiat is exempt, but VAT applies to goods or services purchased using it.

Canada

treated as a commodity, using it to make payments is a barter transaction subject to GST, while exchanges are exempt financial services.

Australia

exchange for fiat or other digital asset is not liable to GST but using it to buy goods or services attracts GST.

In the early stages, many jurisdictions such as the EU and Australia classified cryptocurrencies as intangible property which often resulted in double taxation, once at the time of acquisition and again when used for payments. Subsequent reforms have moved towards aligning VAT treatment with that of traditional currencies, though notable differences still exist globally and a unified international approach has yet to emerge.

UAE'S VAT POSITION ON CRYPTOCURRENCY

For several years after the introduction of VAT in 2018, the law did not expressly mention the VAT treatment for cryptocurrency, creating uncertainty for businesses and investors in the digital asset space. This uncertainty was resolved with Cabinet Decision No. 100 of 2024, which amended the Executive Regulations of Federal Decree-Law No. 8 of 2017 on Value Added Tax ('Executive Regulations').

For the first time, the VAT legislation introduced the definition of **"virtual assets"**[4] as "digital representation of value that can be digitally traded or converted and can be used for investment purposes, and does not include digital representations of fiat currencies or financial securities."

By doing so, the UAE formally recognised cryptocurrencies and similar digital assets as a distinct legal category of virtual assets within the VAT system separate from both legal tender and traditional securities. This clarification resolved a long-standing question for most crypto-based transactions.

However, the boundaries of this definition also exposed new areas of uncertainty. As digital representations of fiat currencies and financial instruments are expressly excluded from the definition, questions remain as to whether stablecoins, given their peg to fiat value and assets, would fall within or outside the scope of "virtual assets" (Please refer to our latest whitepaper, "The VAT Landscape for Stablecoins in the UAE", for a detailed discussion on this topic).

Similar considerations may also arise for digital assets that are structured to provide access to platforms, products or other forms of utility. Where such assets are primarily linked to access or usage rights, they may not necessarily meet the definition of virtual assets.

Hybrid or mixed digital assets that combine investment and utility characteristics may require a more detailed assessment. While such tokens may provide access to a platform, product or service, they may also be traded or transferred within a digital asset ecosystem. Accordingly, the qualification whether it is a virtual asset would depend on the specific rights attached to the token and the manner in which it is used.

Building on this classification, the VAT legislation further clarifies how transactions involving virtual assets are to be treated for VAT purposes. Pursuant to the amended Article 42(2) of the Executive Regulations, transactions with virtual assets are now recognized as financial services, which include:

(k) the transfer of ownership of virtual assets, including virtual currencies;

(l) the conversion of virtual assets; and

(m) the keeping and management of virtual assets and enabling control thereof.

While the scope of financial services now encompasses the above activities, the amended Article 42(3) explicitly provides that only (k) the transfer of ownership of virtual assets and (l) their conversion will be treated as exempt supplies, effective retrospectively from 1 January 2018.

In contrast, the services falling under (m) the keeping and management of virtual assets are not automatically exempt and follow the general VAT treatment applicable to financial services. As such, the service may either be subject to 5% VAT or treated as exempt, depending on how the consideration is charged. Where an explicit fee or commission is charged the service would be subject to 5% VAT. However, if the service is provided through an implicit margin, it would be treated as exempt. We note that this treatment appears to apply only from 15 November 2024.

Where these services are provided to recipients outside the UAE, they may qualify for zero-rating, subject to meeting the export of services conditions under Article 31 of the Executive Regulations. At the same time, the classification of supplies as exempt or taxable has a direct impact on input tax recovery, with VAT attributable to exempt activities generally blocked and recovery permitted only to the extent costs relate to taxable or zero-rated supplies.

The UAE VAT framework is also beginning to address practical aspects of digital currency transactions. In this regard, the FTA has recently issued a tax directive[5] on the method of converting the value of digital currencies into UAE Dirham for VAT purposes. While this directive does not change the classification of virtual assets, it is a useful development as it provides guidance on how digital-currency values should be reported for VAT purposes.

This shows that the UAE VAT position on digital assets is developing in two parts: first, by clarifying the VAT classification of virtual-asset activities, and second, by addressing the practical reporting mechanics required for businesses dealing with such assets.

In the following section, we will explore the various transactions across the cryptocurrency lifecycle and discuss the corresponding VAT implications.

[4] Article 1 of the Executive Regulations of the Federal Decree-Law No. 8 of 2017 on Value Added Tax
[5] Directive on Tax Transactions No. 3 of 2026 for Value Added Tax on the Method of Converting the Value of Digital Currencies into UAE Dirhams, issued on 14 July 2026

A PRACTICAL GUIDE TO TAXABLE EVENTS

I. CREATION

A. Mining

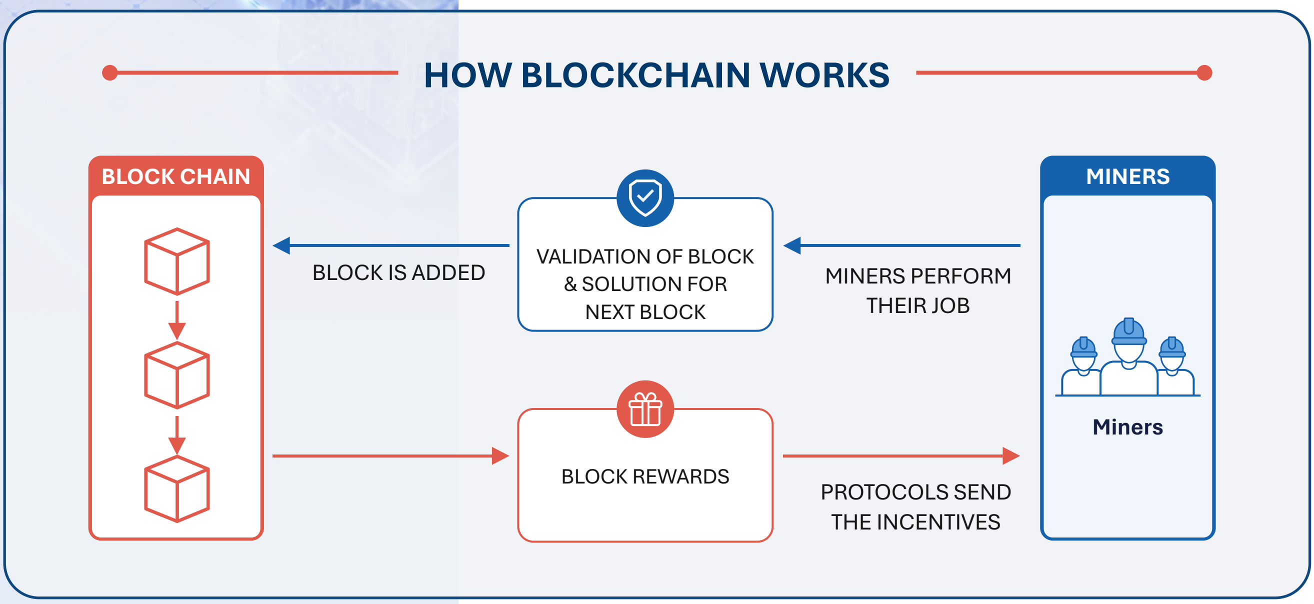
Mining forms the backbone of many blockchain networks. It is the process through which transactions are verified, added to the blockchain ledger, and new digital assets are created. In this process, miners use high-powered computers to solve complex mathematical problems known as cryptographic puzzles. Each successful solution validates a block of transactions, which is then permanently recorded on the blockchain.

As an incentive for maintaining the network's security and integrity, miners receive a reward in the form of newly generated cryptocurrency tokens, commonly referred to as block rewards. This is the primary way in which new cryptocurrencies, such as Bitcoin, are introduced into circulation.

In addition to block rewards, miners may also earn transaction fees paid by users who initiate blockchain transactions. These fees compensate miners for including and confirming the users' transactions within a block ensuring that the network remains operational and tamper-proof.

Together, block rewards and transaction fees represent the two main income streams for miners. While both are typically received in the same cryptocurrency being mined, they differ in nature – one being protocol-based and the other user-driven.

VAT implications:
The treatment of block rewards and transaction fees from a VAT perspective is discussed below.



Block rewards

A Public Clarification has been released by the FTA regarding the VAT treatment of cryptocurrency mining activities. It clarifies that mining conducted by a person for their own account does not constitute a taxable supply and therefore falls outside the scope of VAT. This is because the miner is not providing a service to any identifiable recipient, instead the network protocol automatically issues block rewards as a result of the miner's computational efforts. Consequently, there is no specific recipient making the payment for the service, and the reward is considered an algorithmic issuance rather than a consideration for a supply.

However, the FTA has noted that where a miner undertakes crypto mining activity for others for a fee, the miner is considered as supplying a service. As there is an identifiable recipient and the services are provided for consideration, the mining services will be a taxable supply for VAT purposes.

Input VAT recovery: While the block rewards themselves are outside the scope of VAT, miners typically incur substantial expenses that are subject to VAT, such as specialized machinery, electricity, and internet costs. Based on the Public Clarification, where mining is carried out on own account and treated as outside the scope of VAT, input VAT recovery on related costs may be restricted. Conversely, if mining is performed for others for a fee, then the related input VAT may be recoverable.

However, the FTA's clarification does not address situations where the cryptocurrencies mined for own account are subsequently used for taxable supplies. Hence, the input VAT recoverability on expenses incurred during mining remains an open question since eventually these costs are used towards taxable supplies.

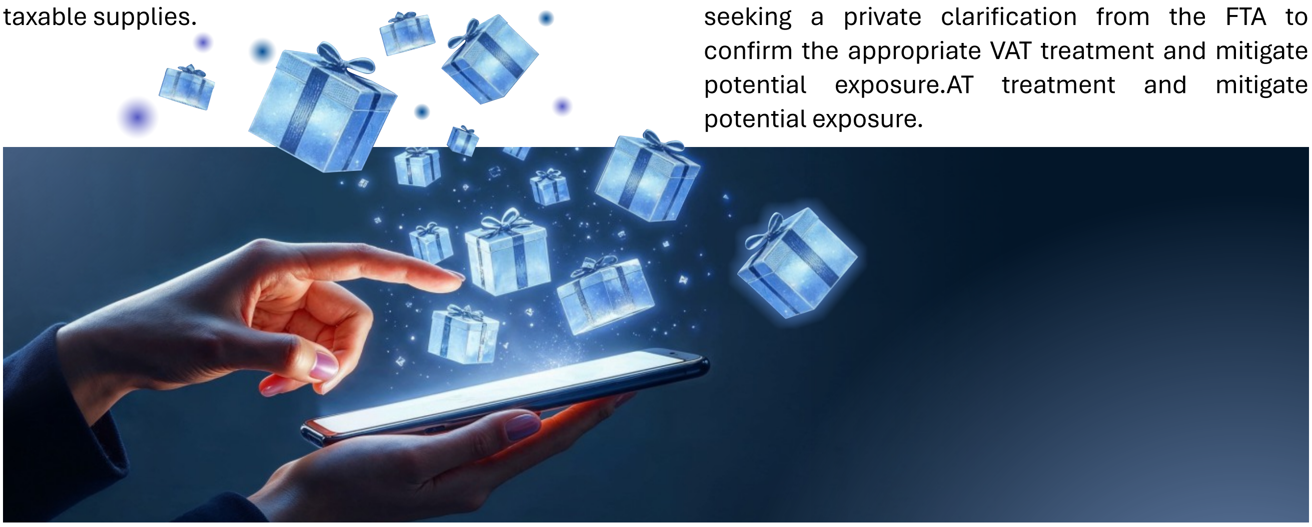
Transaction fees

The FTA has not explicitly clarified whether transaction fees earned through mining activities constitute a taxable supply or fall outside the scope of VAT. However, this can be interpreted in several ways.

One possible view is that such fees may be regarded as consideration for a taxable supply, as miners receive transaction fees from users in exchange for validating their transactions on the blockchain. In this context, the FTA may consider network users as the recipients of the mining service. Given that the identities and locations of these users are typically unknown, the FTA could potentially treat such transactions as taxable supplies subject to 5% VAT.

Mining pools: In certain cases, miners participate in mining pools, where multiple miners combine their computational resources to enhance the likelihood of successfully mining a block. Each miner contributes computational power to the pool and when the pool successfully mines a block, the facilitator distributes the block reward and transaction fees among participating miners based on their contributed hash power. From this perspective, it can be argued that the miner is supplying computational resources to the pool facilitator. Accordingly, if the facilitator is located outside the UAE, the fees earned could potentially be treated as a zero-rated supply, provided the relevant conditions are satisfied.

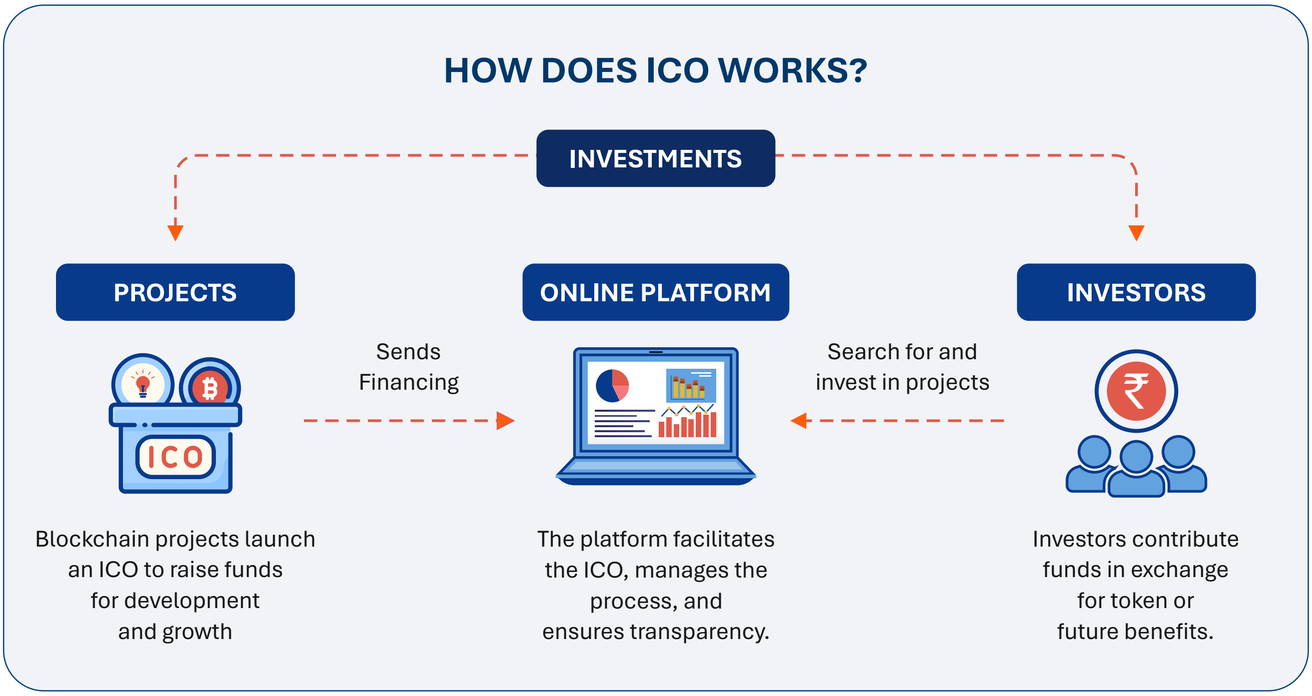
Alternatively, if the FTA views the transaction fees as analogous to block rewards where there is no identifiable recipient of the validation service, the transaction could be considered as outside the scope of VAT. However, given the absence of explicit guidance on this point, businesses should consider seeking a private clarification from the FTA to confirm the appropriate VAT treatment and mitigate potential exposure.AT treatment and mitigate potential exposure.



B. Initial Coin Offerings (ICOs)

ICO is a fundraising mechanism adopted by cryptocurrency startups to raise capital, conceptually similar to an IPO in traditional finance. In an ICO, the project team develops a detailed concept or whitepaper outlining the project's objectives, underlying technology and digital asset's structure. Subsequently, a new cryptocurrency or token is created and offered to investors during the ICO.

Investors can purchase these newly issued digital assets using fiat currency or established cryptocurrencies. Following the sale, the digital assets are allocated to investors' digital wallets, either immediately or on a predetermined future date. Investors may benefit through potential appreciation in digital asset's value, access to specific project-based utilities or participation in the project's success. By the conclusion of an ICO, new cryptocurrencies or digital assets are effectively created and distributed within the market.



[6] https://sdlccorp.com/post/how-does-an-ico-work/

VAT implications:

From a VAT perspective, discussions around ICOs often turn on how the issued digital assets are characterised and whether they fall within the definition of a "virtual asset".

Where the digital assets can be traded or converted and can be used for investment purposes, they are likely to be treated as virtual assets. In such cases, the issuance or transfer of these assets would generally qualify as a financial service and therefore exempt from VAT.

However, the VAT treatment of an ICO should not be concluded solely based on the issuance mechanism. The classification would need to be assessed having regard to the underlying nature, features and rights attached to the digital asset being issued.

C. Airdrops and Hard Fork

Airdrops: free digital asset giveaways

An airdrop is a common promotional mechanism where project developers distribute free digital assets to users to raise awareness or encourage participation in their project. The concept can be compared to a company offering free samples to potential customers.

From a VAT standpoint, the tax treatment of an airdrop depends on whether the recipient performs any action or provides any value in return for the digital assets.

In instances where the recipient obtains digital assets entirely free of charge and without performing any actions, the transaction typically does not constitute a supply under UAE VAT law.
Although the issuance or transfer of virtual assets is generally treated as an exempt financial service, the deemed supply provisions would not apply where such virtual assets are provided free of charge, as the deemed supply rules do not extend to exempt supplies. Accordingly, in the absence of consideration, no supply arises for VAT purposes, and the transaction may fall outside the scope of VAT.

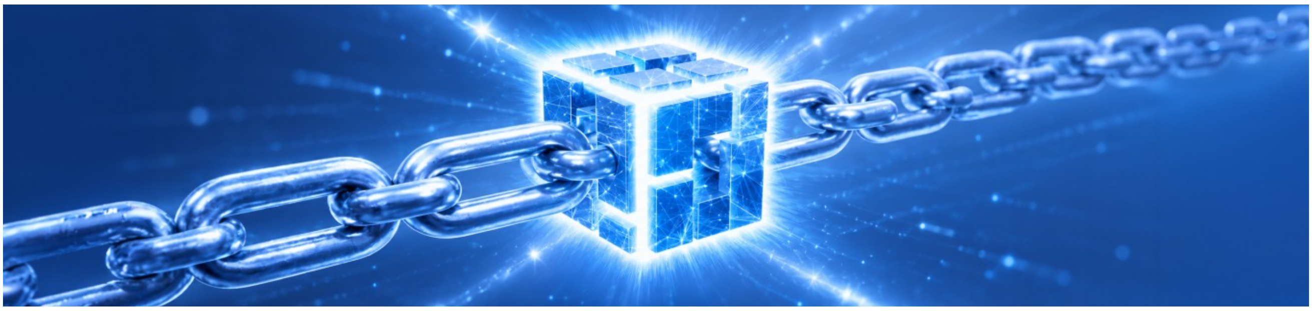
• Purely promotional Airdrops (free distribution)
In instances where the recipient obtains digital assets entirely free of charge and without performing any actions, the transaction typically does not constitute a supply under UAE VAT law. Further, for VAT to apply, there must exist a clear and direct link between the supplier and a recipient, with consideration exchanged in return for the supply.

In a purely promotional airdrop, such linkage is absent, as the recipient does not provide any service or payment in return for the digital assets. Consequently, the transaction falls outside the scope of VAT.

• Conditional Airdrops (Barter Transactions)
However, where the airdrop is conditional, i.e., the user is required to perform a certain task such as promoting the project on social media, maintaining a minimum digital asset balance, or completing specific activities, the VAT position changes.

In such cases, the arrangement may be viewed as a barter transaction[7]. The user provides a service, and the cryptos are received in return for that service. Accordingly, the user may need to assess whether the activity performed constitutes a taxable supply for VAT purposes, taking into account the user's VAT registration status and place of supply.

From the issuer's perspective, the transfer of cryptos may fall within the exempt financial services category. However, this position should be assessed based on the nature and facts of each arrangement.



Hard fork: When one blockchain becomes two

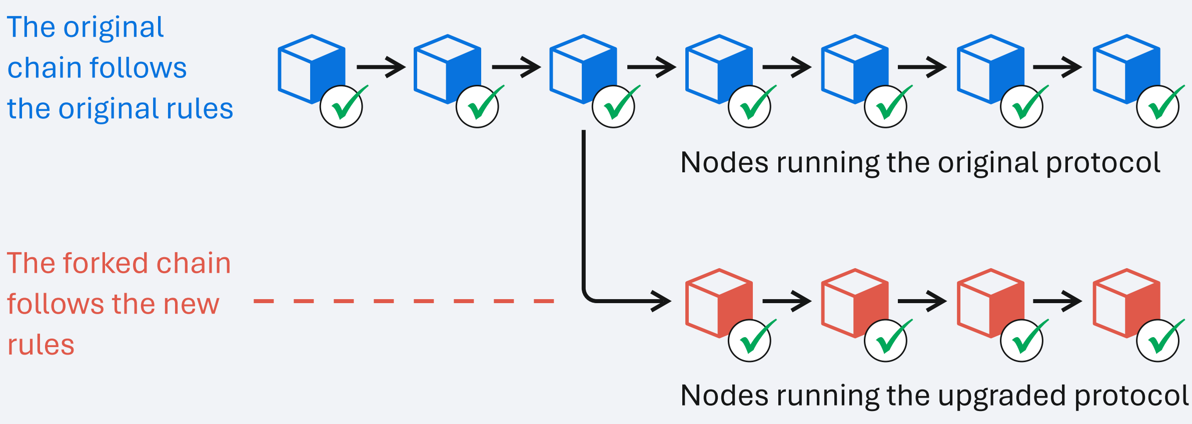
A hard fork occurs when a blockchain's underlying code is modified in such a way that it splits into two separate chains, each continuing independently thereafter. This process effectively results in the creation of a new cryptocurrency while the original chain continues to operate.

When a hard fork happens, existing holders of cryptocurrency on the original chain typically receive an equivalent quantity of the new cryptocurrency on the new chain, without providing any consideration or taking any active part in the process.

For illustration, this scenario is similar to one where a shareholder holding 100 shares in a company receives an additional 100 shares pursuant to a bonus issue or a stock split, without making any further investment. The shareholder's overall economic position changes in form, but not necessarily in immediate value, as the new entitlement arises solely from existing ownership rather than from a new transaction.

[7] VATP042 - Value of supply - Barter Transactions

WHAT IS A HARD WORK?



[8] https://dailycoin.com/differences-between-blockchain-hard-forks-and-soft-forks/

The key determinant of whether VAT applies is whether a supply takes place for a consideration. In the context of a blockchain hard fork, as mentioned above, holders of the original cryptocurrency receive newly created cryptocurrency automatically, without providing any payment, undertaking any action, or performing any service in exchange.

Since there is no supply provided by the recipients in exchange for the cryptocurrency received, the mere receipt of cryptocurrency arising from a hard fork will not carry VAT consequences. However, any subsequent disposal, exchange, or use of those cryptocurrencies may give rise to VAT implications depending on the nature of the transaction.

II. MANAGING OR HOLDING CRYPTOCURRENCIES

Once the cryptocurrencies are received by the holders, they have the option to retain them in their digital wallets or to transfer them to another holder. Holders may use the cryptocurrencies for various purposes, depending on their functions or as per the requirements of the holder.

A cryptocurrency wallet is an essential tool for managing and safeguarding virtual assets. It holds the private keys, a unique cryptographic code that verifies ownership and allows access to the cryptocurrencies recorded on the blockchain. By using these private keys, users can securely access their blockchain address to send, receive, or manage their digital holdings.

Hot wallets vs. cold wallets

A **hot wallet** functions much like a conventional wallet; it remains connected to the internet through a desktop, mobile, or browser application, offering convenience for regular transactions. Common examples of hot wallets include mobile apps, web-based wallets, and desktop applications.

In contrast, a **cold wallet** operates offline, offering enhanced security against online threats. Cold wallets are typically hardware devices or physical backups (such as paper wallets) that store private keys securely without internet exposure. These are best suited for long-term storage or safeguarding high-value holdings, though they may be less convenient for regular access or trading activity. Examples include hardware wallets and paper-based key records.
The VAT treatment for cryptocurrency wallets varies depending on whether the person is acting as a service provider or a holder.

• For the wallet service provider:

From a VAT perspective, the service of keeping and managing virtual assets follows the general tax treatment applicable to financial services. Accordingly, wallet or custody services, including storage, transfer facilitation and security management of virtual assets, may either be subject to VAT at 5% or treated as exempt, depending on the manner in which consideration is charged.

Where a UAE-established wallet service provider charges an explicit fee or commission to the cryptocurrency holder, such services would generally be subject to VAT at the standard rate of 5%. Conversely, where the service is remunerated through an implicit margin, the service may be treated as exempt.

Where the wallet service provider is established outside the UAE and the wallet services are received by a UAE VAT-registered person, the recipient may be required to account for VAT under RCM, subject to the applicable place of supply rules.

• For the cryptocurrency holder:

Simply holding, storing, or transferring cryptocurrencies between one's own wallets is considered a personal administrative action rather than a commercial activity. As no supply of goods or services takes place in this process, such remain outside the scope of VAT.

Similarly, fluctuations in the market value of cryptocurrencies do not give rise to VAT implications. Unrealized gains or losses do not constitute a taxable event. For VAT purposes, a taxable event arises only when there is an actual supply of goods or services made for consideration, simply holding digital assets even if their value increases or decreases over time does not amount to a supply and therefore remains outside the scope of VAT.

III. DISTRIBUTION OR TRANSFERS OF CRYPTOCURRENCIES

The final stage in the life cycle of a cryptocurrency in the hands of its owner is its disposal. Whether voluntary or involuntary, disposal can occur through several mechanisms, each with distinct VAT implications.

a). Voluntary disposals

- **Trading via platforms:** Online cryptocurrency trading platforms serve as the primary infrastructure for buying, selling, or swapping digital assets, either against fiat currencies (e.g., AED, USD) or other cryptocurrencies.

  Where trading is conducted through a platform or exchange, the VAT analysis would depend on the role performed by the platform and the underlying contractual arrangements. In particular, it would be necessary to assess whether the platform acts as principal or as an agent facilitating the transaction between the parties.

  This distinction may affect how the transaction flow is viewed for VAT purposes, including the identification of the supplier, recipient, consideration and place of supply. Accordingly, the VAT outcome would need to be assessed based on the specific operating model, terms of use, flow of funds and supporting documentation.

- **Sale or conversion:** Where a holder disposes of virtual assets for consideration whether through a direct transfer to another party or by converting the cryptocurrency into fiat currency the transaction is treated as an exempt financial service for VAT purposes.

  Accordingly, no VAT is chargeable on the value of the cryptocurrency disposed of. Where the disposal is made to a non-resident counterparty, the transaction may qualify for zero-rating, subject to the conditions for export of services under Article 31 of the Executive Regulations being satisfied.

- **Cryptocurrencies buybacks & burns:** Some projects may repurchase their own cryptocurrencies from holders ("buybacks") or permanently remove such cryptocurrencies from circulation by sending them to an irrecoverable blockchain address. These actions are typically undertaken to manage circulating supply or support digital asset value.

  From a VAT perspective, buybacks and burns of cryptocurrencies are generally viewed as financial or treasury actions rather than commercial transactions. In most cases, these activities do not involve the supply of goods or services, as no consideration is received by the issuer in return and the token holder does not provide any reciprocal service. Accordingly, such buybacks and burns would typically fall outside the scope of VAT.

However, VAT treatment may need to be reconsidered where the buyback or burn forms part of a wider arrangement that involves consideration or is linked to a separate taxable supply. For example, if the buyback or burn is tied to a service fee or performance reward, it may be treated as a supply of service for VAT purposes because it is now being carried out in exchange for consideration.

In such cases, the overall substance of the arrangement would need to be assessed and if the buyback or burn is linked to consideration it may be treated as a taxable service subject to VAT.

b). Involuntary disposals

- **Theft or loss:** Theft of cryptocurrencies or loss of access due to misplaced private keys represents an inherent risk associated with digital assets. From a VAT perspective, such events may generally be regarded as involuntary losses rather than supplies, as there is typically no intention to make a supply and no consideration received in return.

  Accordingly, in most cases, theft or accidental loss of cryptocurrencies may be considered outside the scope of VAT, as the essential elements of a taxable supply are not present. That said, the VAT treatment would need to be assessed based on the specific facts and circumstances, including whether the loss is connected to a wider taxable activity, insurance recoveries, or any subsequent compensatory arrangements.

- **Incentivized hacking:** In certain blockchain networks, transaction validators or participants may face penalties for malicious behaviour, hacking, or data breaches. Cryptocurrencies can be forfeited as part of protocol-enforced penalties and hence they may not constitute a taxable supply under VAT law.

  The key distinction is that the deduction or forfeiture of tokens occurs automatically through the blockchain protocol and is not a voluntary exchange of goods or services for consideration. For example, if a validator acts maliciously, some of their staked digital assets may be automatically forfeited by the network. This system-enforced transfer is a penalty mechanism rather than a supply of goods or services, and therefore may remain outside the scope of VAT.

Summary of VAT implications across the cryptocurrency's lifecycle

Below is a summary of the VAT implications that may be applicable at different stages of a cryptocurrency's lifecycle:

TRANSACTION	BRIEF DESCRIPTION	VAT IMPLICATION
CREATION		
Mining - block rewards	Cryptocurrency issued by the protocol for validating blocks	• If mined on own account - outside the scope of VAT, as no identifiable recipient or consideration. • If mined for another person - taxable at 5% or 0%.
Mining - transaction fees	Fees earned for validating user transactions	**Different views are possible:** • 5% VAT, if recipients are based in the UAE. • 0% VAT, if recipients are outside the UAE and fulfil the conditions for zero-rating. • Outside the scope of VAT if there is no identifiable recipient.
Initial Coin Offering (ICO)	Issuance of new tokens to investors for fundraising	• Digital assets that qualify as 'virtual assets' → ***Exempt financial services***. • Digital assets that do not qualify as 'virtual assets' → depending on the underlying nature of such asset
Airdrops - purely promotional	Free distribution of tokens without requiring any user action.	• Outside the scope of VAT, as there is no supply for consideration
Airdrops - conditional / barter	Tokens are received in exchange for user actions like promotion or engagement.	• Treated as a barter transaction • Value of supply needs to be assessed
Hard fork	Blockchain splits into two, creating new tokens issued automatically to existing holders.	• May be treated as outside the scope of VAT as no supply or consideration involved as new tokens received passively

TRANSACTION	BRIEF DESCRIPTION	VAT IMPLICATION
	MANAGING OR HOLDING	
Cryptocurrencies wallets	Tools for storing and managing private keys to access crypto assets.	• *For holders*: outside the scope as it is a personal administrative action. • *For service providers:* taxable at 5% for an explicit fee, exempt if provided for implicit margin.
	DISTRIBUTION OR TRANSFERS (VOLUNTARY DISPOSALS)	
Trading via platforms	Buying, selling, or swapping cryptocurrency through online exchanges.	• VAT treatment would depend on the role performed by the platform and the underlying contractual arrangements.
Sale or conversion	Seller transfers crypto directly to buyer without a platform.	• Exempt financial service or zero rated if conditions are met.
Buybacks and burns	Project repurchases or destroys tokens to reduce supply.	• Outside the scope of VAT. • VAT implications may arise if consideration is linked to the buyback or burns.
	DISTRIBUTION OR TRANSFERS (INVOLUNTARY DISPOSALS)	
Theft or loss	Losing access to crypto due to	• Not a supply, hence outside the scope of VAT.
Involuntary Disposals - Incentivized hacking	Automatic token deduction by blockchain for non-compliance.	

OTHER KEY CONSIDERATIONS & OPEN ISSUES

Despite the progress made in the VAT framework for virtual assets, given the evolving nature of the virtual assets landscape several areas remain open to interpretation. Below are selected issues that give rise to interesting VAT considerations and that merit closer scrutiny.

a) Tokenization of investments:

A number of business models introduced in the UAE in 2025 used digital tokens to represent ownership interests in investments such as real estate. Real estate tokenization allows property ownership to be represented by digital tokens on a blockchain offering fractional ownership to investors.

This innovation presents novel VAT challenges. While tokens may represent ownership in an underlying asset, they may also qualify as virtual assets for VAT purposes. Although virtual assets are treated as financial services which are generally exempt or zero-rated, direct interests in UAE-based assets are often subject to VAT at 5%.

Accurately classifying the components of tokenized investment arrangements is therefore essential in determining the correct VAT treatment.

b) Reverse charge mechanism ('RCM') and barter transactions:

In practice, fees charged by service providers such as mining pools are often settled through netting mechanisms rather than through separate payments. Typically, whenever a miner receives its share of cryptocurrency (as a block reward and transaction fee), a pool fee (in the form of cryptocurrency) is automatically deducted from the full value of cryptocurrency earned. As a result, the value of cryptocurrency received by the miner from the mining pool is on a net basis.

Illustrative example:

A UAE-based miner participates in a non-UAE mining pool and earns 10 units of cryptocurrency as gross mining rewards. Out of the 10 units:

- 8 units represent mining rewards for block validation activities;
- 1 unit represents transaction fees paid by network users to the miner; and
- 1 unit is retained by the non-UAE mining pool as a service fee for providing pool-related services (e.g. coordination, infrastructure, and administration).

In practice, the miner only receives 9 units of cryptocurrency and often records only the net cryptocurrency received in their accounting records and VAT returns.

VAT analysis and key considerations

For VAT purposes, it is important to separately analyse mining rewards and transaction fees from service fees charged by the mining pool, even when all amounts are settled through a single net transfer of cryptocurrency. Consequently, these amounts should be accounted for and reported on a gross basis in the VAT return.

Where the service provider (i.e., the mining pool) is located outside the UAE, such arrangements may give rise to RCM implications. Further, in cases where service fees are settled in cryptocurrency (for example, through a deduction from mining rewards), such settlement may be regarded as non-monetary consideration, i.e. the provision of the financial service (i.e. the cryptocurrency). From a VAT perspective, the absence of a cash payment does not eliminate the existence of consideration. As a result, such an arrangement could constitute a barter arrangement, requiring proper valuation and appropriate VAT reporting of the supplies.[9]

c) Identification of the Recipient

An additional area of complexity in the VAT treatment of virtual-asset transactions relates to the identification of the recipient of services. In traditional VAT frameworks, identifying the recipient is generally straightforward. However, in the context of decentralised networks, platforms, and protocol-driven activities, this analysis becomes significantly more challenging.

In many virtual-asset arrangements, services may be provided through automated protocols or platforms, with multiple participants involved in a single transaction flow. For example, miners, validators, platform operators, liquidity providers, or users may each play a role in enabling a transaction, without a clearly identifiable counterparty receiving the service in a conventional sense. This raises questions as to who should be regarded as the recipient of the service for VAT purposes, particularly where consideration is paid indirectly, netted off, or settled in cryptocurrency.

The identification of the recipient is critical for determining the appropriate VAT treatment,

[9] VATP042 - Value of supply - Barter Transactions

including whether zero-rating applies. Misidentifying the recipient could result in incorrect VAT treatment, compliance risks, or exposure to penalties. Therefore, careful analysis of the economic substance and contractual arrangements of the transaction is required to establish the proper recipient and ensure accurate VAT reporting.

d) Stablecoins, CBDCs and other digital tokens

The increasing use of stablecoins, CBDCs, and other digital tokens in the UAE raises a number of VAT and regulatory considerations. A key open question is whether and to what extent these instruments qualify as virtual assets for VAT purposes.

CBDCs, being digital representations of fiat currency issued by a central bank, would generally be expected to fall outside the scope of virtual assets. However, at present there is no specific guidance issued by the FTA confirming the VAT treatment of CBDCs and the position therefore remains subject to clarification.

Stablecoins, while often pegged to fiat currencies, are typically not direct digital representations of fiat and are issued by private entities. As such, they are more likely to be treated as virtual assets for VAT purposes, although the precise treatment may depend on their structure and use case.

Similarly, utility tokens would need to be assessed on a case-by-case basis. Depending on their characteristics and how they are used, such tokens may either be regarded as virtual assets (for example, where held for investment purposes) or as de factor consideration for taxable supplies of services, where they provide access to functionality or specific services. Alternatively, where a utility token provides the holder with a right to access underlying goods or services, questions may arise as to whether the token could be viewed as a form of voucher for VAT purposes. The VAT treatment in such cases would depend on whether the underlying supply is identifiable at the time of issuance and how the token is structured and redeemed. This remains an area of uncertainty and requires careful analysis.

Given the evolving nature of these instruments and the absence of detailed VAT guidance in this area, further clarification from the FTA would be helpful. In particular, taxpayers may consider seeking private clarification to confirm the appropriate VAT treatment based on their specific token design, use case, and transaction flow.

[8] VATP042 - Value of supply - Barter Transactions

WHAT'S NEXT?


COMPLIANCE
SMART CONTRACT
SECURITY
DEFI
TOKENIZATION
SECURITY

The VAT treatment of virtual assets in the UAE has moved from conceptual guidance to practical compliance. While the core VAT principles applicable to virtual assets are now largely established, a number of emerging areas such as tokenized structures, stablecoins, and mixed-activity platforms continue to raise questions around classification, valuation, and the correct application of VAT.

As virtual-asset business models evolve and become more interconnected, businesses operating in this space must ensure that their VAT positions remain aligned with current UAE VAT legislation and administrative guidance issued by the FTA. In particular, greater focus is required on how supplies are characterised, how consideration is determined, and how VAT obligations are applied in non-traditional settlement models.

In this context, businesses should consider the following key actions:

- Map end-to-end transaction flows across the virtual-asset lifecycle to clearly identify supplies, counterparties, and settlement mechanisms.
- Assess VAT classification of activities and instruments (e.g. virtual assets, utility tokens, stablecoins) on a case-by-case basis, based on their specific features and use.
- Identify potential RCM exposure on services received from non-UAE suppliers, particularly where fees are netted off or settled in cryptocurrency.
- Review input VAT recovery positions, ensuring that VAT is claimed only to the extent costs relate to taxable supplies.
- Establish consistent valuation methodologies for non-monetary consideration, supported by appropriate documentation.
- Monitor further FTA guidance and consider seeking private clarification where the VAT treatment remains uncertain or fact specific.

Please note that this publication forms Part 1 of Dhruva's virtual assets VAT series and focuses primarily on foundational concepts such as cryptocurrency lifecycles, mining, transfers, platform services, and input VAT considerations.

In Part 2, we will explore more complex and evolving areas of the virtual-asset ecosystem, including DeFi, DAOs, tokenised securities, hybrid structures etc., where VAT treatment remains less settled and continues to develop.

Crypto Team
This publication has been prepared by Dhruva's dedicated crypto and virtual assets VAT team, bringing together specialists with deep experience in UAE VAT, cross-border indirect tax, and emerging digital-asset business models.

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