Lovewell Blake
Chartered Accountants and Financial Planners

Crypto Glossary

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Contents

Core concepts

Blockchain: Is a secure digital ledger that is decentralised. It records everything that occurs on each network without any input from an outside source. These can be viewed in blockchain explorers.

Crypto asset: HMRC's umbrella term for cryptographically secured digital items that have assigned value.

Decentralised: No singular controlling party, it is maintained and operated by independent participants rather than a central operator.

Permissionless: Anyone can interact with the blockchain, no permissions are needed to buy/sell, stake on chain.

Seed phrase: A 12-24 word back up that provides access to the master key of a digital wallet. A seed phrase must be recorded securely when the wallet is generated; losing it risks permanently losing access to the wallet.

Wallet address: The address linked directly to the wallet will be in a different format depending on the chain (network) it is used on. The same wallet may have multiple wallet addresses for each different chain network.

Contract address (CA): The contract address of a coin/token on chain. The contract address corresponds to the smart contract on the blockchain. On EVM chains such as Ethereum this is a unique 40-hexadecimal-character string prefixed with 0x. Other chains use different formats (e.g. Solana uses base58 addresses).

Network

Layer 1 (L1): The blockchain network itself. For example, the Bitcoin or Ethereum network.

Layer 2 (L2): Are solutions built on top of a layer 1. A L2 usually enhances the scalability and reduce costs of the L1 chain. Transactions are processed "off-chain" to reduce the transaction fee of the L1 chain. Popular L2s include Base, Arbitrum and Optimism.

Layer 3 (L3): Application-specific chains or layers built on top of L2s. The term is also used more loosely for the application layer where users interact with blockchain services – dApps, wallets and web3 services.

Coin: A coin is the native asset of the blockchain network. $BTC for bitcoin network, $ETH for Ethereum network etc. For a pairing it will always be Token/Coin.

Token: A token is issued on top of the native network so will have the swap pair ---/Sol for Solana. Tokens include: Memecoins, Security, or Infra tokens.

DeFi (Decentralized finance): Financial Services run by smart contracts rather than traditional institutions. These include lending, borrowing, trading.

DEX (Decentralized exchange): An on-chain exchange that allows a user to trade cryptocurrencies held in their wallet without an intermediary. The trading is completed via smart contracts instead. This user connects their wallet to the Dex to be able to exchange their crypto for any coin on the network. On Ethereum network, the biggest DEX is Uniswap, this DEX can be used to swap into any token with a ---/Eth pairing. On Solana, the largest DEX is Raydium.

CEX (Centralized exchange): A centralized exchange is a digital platform that allows users to trade cryptocurrencies through an account after being confirmed to their identity (KYC). The CEX acts an intermediary and ultimately holds the users' funds on their behalf.

Therefore, any cryptocurrency held on a CEX is more of an IOU than coins held directly by the user as the keys are held by the CEX.

The famous saying is "Not your keys not your crypto".

Airdrop: Tokens are distributed to wallets for free. This is primarily done to generate a community of holders or as a way of marketing.

NFT: Non-Fungible Token is a unique non-interchangeable token (the token can be bought and sold but it will always remain the exact same token). Ownership of the token passes to the holder, but this does not automatically include intellectual property rights in any underlying artwork – a common misconception.

Mempool: Where unconfirmed transactions are kept until they are confirmed in a block.

Proof of Work (POW): Miners expend computer power to add blocks by solving complex mathematical puzzles. The reward for mining a block is the block subsidy – currently 3.125 BTC – plus transaction fees. The puzzles are extremely hard to solve but easy to verify.

Proof of Stake (POS): Validators lock up a large amount of crypto as a stake to be able to obtain the right to validate transactions. The higher the validator's proportion of the total stake, the higher the chance of being chosen to validate the block. Validators are rewarded with staking APR % between 2-4% for Ethereum.

Network

Market capitalisation: Similar to how it works in traditional finance. Market cap is worked out by circulating supply x price of the coin/token. Supply can be locked away in vesting schedules and does not form part of the market cap.

Tokens unlock: A token unlock is when locked supply gets released into the circulating supply this is always predetermined and public knowledge. Unlocks can occur in two ways:

Cliff vesting – All tokens are unlocked at once.
Linear vesting – tokens are gradually released over time.

Bitcoin Dominance (BTC.D): Bitcoin dominance is a metric that tracks the % of Bitcoin's market capitalisation against the total crypto market capitalisation.

Wallets and custody

Digital wallet: A digital wallet manages keys and constructs transactions. Common misconception is that it stores your coins. It holds the keys only – The coins "live" on-chain.

All assets held in a digital wallet are directly owned by the wallet holder.

Cold storage: A wallet whose private keys are generated and kept on a physical device that never connects to the internet. The assets themselves always remain on-chain – cold storage secures the keys, not the coins. It is often used for long term investment holdings.

Hot wallet: A wallet that is always connected to the internet (e.g. a mobile digital wallet).

KYC: "Know your customer". All residents within the UK (and the majority of the world) are required to provide identification to prove their real identity when on/off ramping.

On-ramp: Depositing fiat currency (GBP £) into a centralised exchange to swap into a crypto currency.

Off-ramp: Converting cryptoassets back to fiat and withdrawing the proceeds back to your bank account.

Halving: A pivotal aspect of the bitcoin model. Roughly every four years (every 210,000 blocks) the reward amount for mining a new bitcoin block is cut in half. This is to ensure the total supply never exceeds 21m BTC. The last halving was in 2024 where the rewards per block reduced from 6.25 BTC to 3.125 BTC.

Liquidity pool (LP): Is a collection of assets that are held as part of the smart contract. They can either be singular assets or multi-assets. A token on Solana's LP usually has dual asset liquidity pools. Where the token itself can be added to the LP as well as SOL. Adding the network's coin to the pool deepens liquidity, reducing slippage and price impact when the token is traded.

HD Wallet (BIP-32/44): A "hierarchical deterministic" wallet generates multiple addresses (tree) from one seed (phrase). Therefore, this could lead to a client having multiple wallets connected to one master wallet.

Bridging: Moving from one chain to another. Networks run parallel to each other but never touch like train tracks. They do not interact with each other. One network like Solana can have Ethereum traded on it via the use of Wrapped tokens. However, to move your capital onto the Ethereum network, then the only way is to bridge between them.

Bridging is the process of moving between chains. In this example the bridge is from Eth (L1) to Base (L2) as Base is a layer 2 rollup on Ethereum, meaning all transaction (Gas) fees are paid in Ethereum.

Ethereum network: £100 in $ETH

Bridge transaction – Network fee paid in $ETH on Ethereum network.

Base network: Received £100 in $ETH on base chain.

Bridging is usually done to be able to buy tokens only listed on one chain that hasn't been listed anywhere else.

ERC-20: Refers to the Ethereum tokens that follow ERC-20 rules. This was made to make tokens on Ethereum more consistent and comparable, as well as being made easier to trace transactions on the blockchain.

Exchange listing: A token listed on exchange. New listings are generally met with a lot of hype which can lead to prices surging.

Trading methods

Swap: Exchanging one cryptocurrency for another (typically via a DEX or CEX). Exchanging fiat (GBP) for crypto is a purchase (on-ramp) rather than a swap.

Perpetual futures leverage: Perpetual leverage is trading via the use of a futures contract that has no expiration date. Therefore, the trade will run until it has been closed or liquidated.

The user puts up collateral to enter the future. The user then can select how much leverage to select up to 100x of the collateral. For example, £100 collateral on a 10x perpetual future would make the position £1000. However, a 1% change in the price of the asset would reduce the position by £100. 10% downturn would cause the position to be liquidated (in practice, liquidation is triggered slightly before this point due to the exchange's maintenance margin requirement). A liquidation would result in the collateral being taken by the futures provider.

Crypto Staking: Locking away your tokens for a set period. The user earns interest (Gaining the staked crypto as a reward) on the staked crypto. The APR rate varies between each token. Projects may offer a higher APR to essentially reduce the amount of circulating supply. Thus, aiming to make the token less volatile. For UK tax purposes, HMRC generally treats staking rewards as miscellaneous income, taxable on receipt at sterling value, with CGT applying on any later disposal of the rewarded tokens.

Fiat Staking: CEXs market GBP "staking" products offering above-market APRs. These are in substance interest-bearing accounts rather than true staking – no blockchain validation is involved, and the funds are deployed by the exchange.

Airdrop farming: Users can complete tasks to obtain a higher rate of an airdrop. Usually, airdrops have set criteria to receive the airdrop. Airdrop farmers will complete the tasks on one or multiple wallets to be eligible for the airdrop.

Liquidity providing: A liquidity pool is needed for a token to be traded. A liquidity pool provider adds liquidity (Coins or tokens) into the pool and earns money on each swap as they obtain part of the transaction fee.

Arbitrage: Buying an asset where it is cheaper and selling it where it is more expensive to capture the price difference. In crypto this can be between two exchanges on the same chain, or across chains (which requires bridging).

Mining: Using computing power to validate transactions and add new blocks to a proof-of-work chain in exchange for block rewards. Bitcoin mining now requires specialised ASIC hardware (GPUs are only viable for certain altcoins), and for most individuals the electricity and hardware costs make solo mining uneconomic.

Relevant tax terms

Disposal: Any event that realises a gain or loss for CGT; Selling for Fiat, swapping from one token to another, spending crypto on goods or services, or gifting (except gifts to a spouse or civil partner, which are treated as no-gain/no-loss).

Cost basis: The acquisition value used to calculate gain or loss on disposal. For UK individuals, HMRC applies share-matching rules to cryptoassets: same-day acquisitions are matched first, then acquisitions within the following 30 days (the "bed and breakfasting" rule), then the section 104 pool – the average cost of all remaining holdings of that token.

Chain analysis: Looking on chain to verify wallet addresses owned by the client and reviewing the transactions undertaken by the client. Uses of on chain analysis tools to view linked wallets and staked assets.

Pseudonymity: Crypto is pseudonymous, not anonymous: Activity is public and permanent, it cannot be altered. Often addresses can be linked back to identities.

Your Notes

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