**EXPLANATORY MEMORANDUM TO**

# THE INTERNATIONAL CONTROLLED TRANSACTION REPORTING REGULATIONS 2026

**2026 No. 1156**

## 1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

## 2. Declaration

2.1 Rt Hon James Murray MP, Financial Secretary to the Treasury and Paymaster General at His Majesty's Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Jerome Cornwall, Deputy Director for Transfer Pricing at HMRC confirms that this Explanatory Memorandum meets the required standard.

## 3. Contact

3.1 Jerome Cornwall, Deputy Director for Transfer Pricing at HMRC can be contacted by email at the following address with any queries regarding the instrument: tp_scope_and_documentation@hmrc.gov.uk. Alternatively, the department can be contacted by telephone: 03000 547300.

## Part One: Explanation, and context, of the Instrument

## 4. Overview of the Instrument

***What does the legislation do?***

4.1 This instrument introduces an annual reporting requirement for in-scope multinational enterprises to submit information in relation to their international controlled transactions (the reporting requirement), to HMRC. The regulations set out, either directly or by reference to a notice or direction: (i) the entities that bear the reporting obligation, (ii) businesses and transactions that fall in scope of the reporting requirement, (iii) the information that businesses will need to collect and report, (iv) the penalties for failing to comply with the requirement, and (v) a right of appeal. The regulations and notice will contain a series of exemptions, reducing the requirement in particular circumstances.

4.2 The reporting requirement will capture specific factual data on transactions between UK businesses, and their connected parties outside the UK, where those transactions meet criteria and thresholds set out in an HMRC notice, or where required in a direction, published by the Commissioners for HMRC. The information provided will be in a standard digitised format that will facilitate automated data-led risk profiling, permitting more accurate identification of international tax risk.

***Where does the legislation extend to, and apply?***

4.3 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

## 5. Policy Context

***What is being done and why?***

5.1 The aim of this reporting requirement is to support more accurate identification of risk for two areas within international tax: the transfer pricing and permanent establishment rules.

5.2 Multi-national enterprises (MNEs) in-scope of the measure will be required to report information on their cross-border, related-party transactions in a standardised dataset. This will allow HMRC to capture specific factual details to be used for automated, data led risk profiling and manual risk identification.

5.3 Transfer pricing is a means of setting the prices of transactions between connected parties using the internationally recognised arm's length principle as the basis. Transfer pricing protects the UK tax base by ensuring UK companies are compensated appropriately for transactions with related parties, preventing MNEs from shifting profits outside of the UK.

5.4 Additionally, Corporation Tax (CT) is charged on the worldwide profits of UK resident companies, and the profits of non-UK resident companies insofar as they relate to business activities carried on in the UK through a permanent establishment.

5.5 For both transfer pricing and permanent establishment, HMRC need to be able to determine if the transfer pricing and profit attribution rules are being accurately adhered to. All businesses are required to keep records to make and deliver a complete and correct tax return. UK entities in scope of transfer pricing and permanent establishment legislation need to demonstrate that related party transactions have been identified and priced in accordance with legislation.

5.6 The Transfer Pricing Records Regulations 2023 require UK entities that are members of groups meeting certain thresholds to maintain transfer pricing master and local files. These documents are available to HMRC upon request but not filed as standard.

5.7 The master and local file are intended to provide compliance teams with a narrative analysis of a taxpayer's transfer pricing positions and are not subject to prescribed and consistent formats. The master file contains standardised information reflecting all members of a multi-national group. The local file contains material transactions of the local taxpayer. Neither are designed, nor suitable for detailed automated risking at scale, utilising objective financial data.

5.8 The reporting requirement aims to meet a need which is not met by these existing transfer pricing documentation requirements. It adds to the information HMRC receives, integrating a factual data led annual filing to the existing narrative documents.

5.9 It will enable HMRC to better identify and target higher risk arrangements, thereby reducing the number of enquiries opened on more businesses with limited transfer pricing risk.

5.10 It will increase efficiency by promoting tax compliance at the earliest opportunity through greater transparency and allowing HMRC to better target resource on higher risk arrangements, benefitting compliant customers.

***What was the previous policy, how is this different?***

5.11 The reporting requirement complements the UK's existing transfer pricing documentation requirements. It does not replace any previous policy.

## 6. Legislative and Legal Context

***How has the law changed?***

6.1 At Budget 2025, the Government announced its decision to introduce the reporting requirement.

6.2 Section 48 of the Finance Act 2026 gave the Commissioners for HMRC the power to introduce regulations requiring specified information to be reported, subject to meeting the conditions set out in that Act. This instrument, and its regulations, are made under those powers. This is the first use of those powers.

6.3 As set out above, the regulations outline the reporting requirement, establishing who is to provide the information, when it is to be provided, and which transactions are to be reported. The regulations also address the liability to a penalty and right of appeal. The regulations are supplemented by, and refer to, a notice, which will be published once the provisions of this instrument are in force, and future directions which may be given by Commissioners. The regulations defer the detail on the information to be provided to the HMRC notice as tertiary legislation. This approach allows HMRC to specify and, where appropriate, adapt the detail of the information required under this measure in a notice. That notice is intended to serve as a clear set of instructions for taxpayers on how to accurately fulfil the requirement. Examples of such adjustments would include the changing of thresholds, exempting certain customers or certain information from the requirements, and the adjustment and amendment of datapoints as part of ongoing monitoring and review outlined at part 10 below.

***Why was this approach taken to change the law?***

6.4 Use of the regulation-making power in section 48 (1) of the Finance Act 2026 is both proportionate and appropriate.

## 7. Consultation

***Summary of consultation outcome and methodology***

7.1 A policy consultation ran from 28 April to 7 July 2025, as part of a wider suite of proposals on reform to transfer pricing legislation.

7.2 Feedback to the policy consultation sought views on the policy basis for introducing a reporting requirement, as well as the scope and content of such a requirement. Respondents recognised the potential benefits of a reporting requirement, both for HMRC and compliant businesses. However, many also noted the administrative burdens which may arise. Several respondents suggested easements or simplifications. In particular, respondents were in favour of an approach that provided greater opportunity for transactions to be aggregated and reported together. HMRC has addressed this feedback through a proposal which provides for greater aggregation, which was included in the revised model reporting requirement in the more recent technical consultation.

7.3 The summary of responses to the policy consultation, with questions 11 to 19 relating to a new reporting requirement, was published online on 26 November 2025[1].

7.4 A technical consultation on the draft statutory instrument and notice, with detail on the reporting requirement, was published 16 June and closed 31 July 2026. The technical consultation requested feedback on changes to the approach to the reporting requirement since the policy consultation. It also sought views on three documents: draft regulations, a draft HMRC notice and a draft template to illustrate the information that may need to be reported to HMRC, noting the IT design is still in development. As the technical consultation built on feedback received in the earlier policy consultation, six targeted face-to-face consultation events were held, with interested representative bodies.

7.5 Most respondents fed back that the 2026 model of the reporting requirement was an improvement on the earlier iterations in terms of administrative burden for taxpayers over benefit to HMRC. It was particularly noted that previous feedback requesting the ability to aggregate transactions in certain circumstances rather than report individually had been adopted. Feedback was also received on areas where further administrative easements would be welcomed.

7.6 Key areas of consistent feedback, and actions taken by HMRC in response, are below.

7.7 Exemptions: respondents requested exemptions for (i) transactions for which HMRC already receive detailed information to assess tax risk (ii) entities where the administrative burden was disproportionate to the tax at risk.

7.8 Exemptions have been extended to the following transactions: dividends, transactions given low risk status following HMRC review under the International Compliance Assurance Program, transactions accepted into HMRC's Advance Pricing Agreement procedure. Exemptions were also extended to charities and their wholly owned trading subsidiaries, and Lloyd's of London spread syndicates.

7.9 Several comments concerned HMRC powers and taxpayer safeguards. A defence of reasonable care has been introduced and a Commissioner's direction is limited to seek further information and copies of books and records only where reasonably required.

## 8. Applicable Guidance

8.1 HMRC is using feedback from stakeholders during the technical consultation to develop guidance on how to fulfil the reporting requirement.

8.2 Guidance in relation to the regulations is available now[2]. More detailed guidance on the HMRC notice will be available on GOV.UK by the time the legislation takes effect on 1 January 2027. Both will form part of HMRC's International Manual.

[1] Consultation outcome: Transfer pricing scope and documentation: https://www.gov.uk/government/consultations/transfer-pricing-scope-and-documentation/outcome/transfer-pricing-scope-and-documentation-summary-of-responses

[2] INTM917300 https://www.gov.uk/hmrc-internal-manuals/international-manual/intm917300

## Part Two: Impact and the Better Regulation Framework

### 9. Impact Assessment

9.1 A Tax Information and Impact Note (TIIN) covering this instrument was published with the primary legislation on 26 November 2025[3]. Developments to the instrument since that point do not materially alter the impacts set out in the TIIN (within a 0.5% adjustment to overall impact across five years).

9.2 This measure will have a significant impact in aggregate across the population of approx. 75,000 businesses who are in the scope of UK transfer pricing, permanent establishment, and foreign permanent establishment legislation as they will be required to submit information to HMRC.

9.3 One-off costs could include familiarisation with the changes and implementation of suitable systems and processes for data collection. Continuing costs will include the resource required to gather the relevant data in each period. The proposal is expected to be broadly aligned with similar overseas requirements and is intended thereby to mitigate additional administrative burdens by requiring the reporting of readily available information. For compliant businesses, the better targeting of risk identification will mean there will be a reduction in HMRC intervention, and a commensurate reduction in costs associated with HMRC enquiries.

***Impact on businesses, charities and voluntary bodies***

9.4 There is no, or no significant, impact on charities or voluntary bodies as the regulations make specific exemption for charities and their wholly owned subsidiaries, following engagement during the technical consultation.

9.5 The legislation does not impact small or micro businesses.

9.6 There is no, or no significant impact on the public sector given the focus of the measure on multinational enterprises with cross-border, related party transactions.

### 10. Monitoring and review

***What is the approach to monitoring and reviewing this legislation?***

10.1 The approach to monitoring this legislation is that HMRC and the Treasury will continue to liaise with stakeholders to discuss the implementation of the Regulations as part of continuing engagement with industry.

10.2 The instrument does not include a statutory review clause in accordance with section 28(3)(a) of The Small Business, Enterprise and Employment Act 2015 because the power by which this instrument is made is not being exercised to make or amend provisions imposing, abolishing, or varying any tax duty, levy, or other charge or provisions in connection with such provisions.

[3] International Controlled transactions schedule (ICTS) – GOV.UK: https://www.gov.uk/government/publications/transfer-pricing-international-controlled-transactions-schedule/international-controlled-transactions-schedule-icts

## Part Three: Statements and Matters of Particular Interest to Parliament

### 11. Matters of special interest to Parliament

11.1 This is the first time that powers established in section 48 of the Finance Act 2026 will be exercised.

### 12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

### 13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").