EXPLANATORY MEMORANDUM TO

THE INTERNATIONAL TAX COMPLIANCE (AMENDMENT) REGULATIONS 2025

2025 No. 740

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 James Murray MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 John Shuker, Deputy Director for the International Collaboration and Transparency team within Business, Assets and International at HMRC, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 David Smith at HMRC, Telephone: 03000 577521 or email: eoi.policy@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the International Tax Compliance Regulations 2015 (S.I. 2015/878) ("principal Regulations"), which came into force on 15 April 2015. The principal Regulations require financial institutions in the United Kingdom (UK) to report information on certain non-resident account holders to HMRC for exchange under international arrangements. This instrument updates the rules to improve their effectiveness and take account of international developments.

Where does the legislation extend to, and apply?

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

4.3 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 policy objective behind this instrument is to increase cooperation between tax administrations in the fight against tax fraud and evasion and other types of tax non-compliance.

5.2 The principal Regulations enable the UK to fulfil its obligations to automatically exchange information with other jurisdictions on accounts held in the UK by persons resident overseas.

5.3 In return, the UK automatically receives information from overseas tax administrations in respect of offshore accounts held by UK tax residents.

5.4 The principal Regulations impose obligations on UK financial institutions to carry out due diligence procedures to identify account holders that are resident overseas, to maintain a record of relevant information and to report accounts identified as reportable to HMRC. The due diligence procedures are contained in the Common Reporting Standard for Automatic Exchange of Financial Account Information (CRS) developed by the Organisation for Economic Co-operation and Development (OECD) in 2014, and the Intergovernmental Agreement with the United States of America to Improve International Tax Compliance and to implement FATCA (the Foreign Account Tax Compliance Act).

5.5 In 2023 the OECD updated the CRS rules to increase their effectiveness and take account of developments in financial markets. Electronic money institutions are brought within scope of the rules as are certain electronic money products and central bank digital currencies. Genuine non-profit organisations are taken out of scope. This instrument implements the 2023 updates to the CRS and introduces other changes to make the UK's implementation of the rules more effective.

What was the previous policy, how is this different?

5.6 Prior to this instrument, the principal Regulations implemented the CRS published by the OECD in 2014. This instrument applies the updates to the CRS published by the OECD in 2023, introduces a mandatory registration requirement for financial institutions and reforms the penalty framework to improve the effectiveness of the UK's implementation.

5.7 The updated CRS requires reporting of additional data. This includes the type of financial account being reported, the type of due diligence applied, whether the account holder or controlling person has self-certified their country of tax residence, the roles of controlling persons and whether the financial account is jointly held. This additional data will improve the ability of tax administrations to risk assess the information and better target tax enquiries.

5.8 This instrument introduces a requirement for UK financial institutions to register with HMRC's Automatic Exchange of Information (AEOI) portal, whether or not they have reportable accounts. This will give HMRC visibility over the population of UK financial institutions, all of which have CRS/FATCA due diligence obligations.

5.9 This instrument also reforms the penalty framework in line with other AEOI regimes. Effective implementation of the CRS depends on self-certifications of tax residence. This instrument introduces a higher penalty on financial institutions that fail to collect valid self-certifications from account holders and controlling persons than that applicable for other breaches of the due diligence requirements. It also imposes a requirement on such persons to provide valid self-certifications.

6. Legislative and Legal Context

How has the law changed?

6.1 The principal Regulations, which this instrument amends, enable the UK to comply with automatic exchange of information obligations arising under international exchange arrangements relating to the CRS and FATCA.

6.2 This instrument is made under powers in section 136 of the Finance Act 2002 and section 349 of the Finance (No. 2) Act 2023 and amends the principal Regulations to implement the OECD's 2023 amendments to the CRS, introduce a mandatory registration requirement for financial institutions and reform the penalty provisions in relation to both CRS and FATCA.

6.3 This instrument is being laid on the same day as the "Reporting Cryptoasset Service Providers (Due Diligence and Reporting Requirements) Regulations 2025", which introduce a new reporting regime in relation to cryptoasset transactions. The OECD developed the Cryptoasset Reporting Framework (CARF) and 2023 amendments to the CRS as a complementary package.

Why was this approach taken to change the law?

6.4 Use of the regulation-making power in section 349 of the Finance (No. 2) Act 2023 is both proportionate and appropriate.

7. Consultation

Summary of consultation outcome and methodology

7.1 A public consultation was launched at Spring Budget 2024 and closed on 29 May 2024. A summary of the 33 written responses received was published at Autumn Budget 2024 alongside draft regulations[1].

8. Applicable Guidance

8.1 Guidance in relation to the principal Regulations is available at gov.uk[2]. HMRC is working with business and advisers to add to this guidance in 2025 to support implementation of this instrument.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A tax information and impact note (TIIN) covering this instrument will be published on the Gov.uk website[3].

[1] Government response to consultation: https://www.gov.uk/government/consultations/cryptoasset-reporting-framework-and-common-reporting-standard/outcome/cryptoasset-reporting-framework-common-reporting-standard-amendments-and-seeking-views-on-extension-to-domestic-reporting-summary-of-responses

[2] Published guidance: https://www.gov.uk/hmrc-internal-manuals/international-exchange-of-information/ieim400000

[3] https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

Impact on businesses, charities and voluntary bodies

9.2 Reporting financial institutions and trustee-documented trusts are required to register with HMRC. Of these, an estimated 6,000, including 300 that are newly brought within scope of the rules, will have additional due diligence to carry out and more information to report. One-off costs for businesses could include familiarisation with the changes, IT infrastructure, purchasing or updating software and training new staff in due diligence processes. Continuing costs could include recording more information on customers and providing HMRC with this information.

9.3 Genuine non-profit organisations are taken out of scope of the rules by this instrument.

9.4 The legislation does impact small or micro businesses.

9.5 To minimise the impact of the requirements on small or micro businesses (employing up to 50 people), the approach taken was to fully engage with the OECD in designing and delivering the CRS. The impact on affected businesses has been reduced by taking certain products that are typical to these financial institutions out of scope of the principal Regulations and by seeking to simplify certain due diligence procedures.

9.6 There is no, or no significant, impact on the public sector because the legislation only applies to financial institutions.

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 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.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution 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”).