EXPLANATORY MEMORANDUM TO

THE REPORTING CRYPTOASSET SERVICE PROVIDERS (DUE DILIGENCE AND REPORTING REQUIREMENTS) REGULATIONS 2025

2025 No. 744

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of the 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 John Sandeman at HMRC Telephone: 03000 589486 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 The instrument forms part of the legislative framework implementing the Organisation of Economic Co-operation and Development's ("OECD") Crypto-Asset Reporting Framework (CARF) in the UK. It requires UK businesses that transfer relevant cryptoassets, or exchange relevant cryptoassets for other cryptoassets, fiat currency (government issued currency that is not backed by a physical commodity) or for goods or services on behalf of their customers, to perform due diligence and report customer details and relevant transaction data to HMRC. The CARF refers to these businesses as reporting cryptoasset service providers. The regulations set out, either directly or by reference to the requirements of the published OECD CARF, the due diligence that needs to be undertaken, the information that businesses will need to collect and report, and the penalties for failing to comply with the requirements.

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 CARF is designed to increase tax transparency in relation to cryptoassets and to help tax authorities identify and tackle cases of tax non-compliance. This instrument will require UK reporting cryptoasset service providers to report information to HMRC about their non-UK resident customers and their customers' cryptoasset transactions. This information will be exchanged automatically with other tax jurisdictions signed up to the CARF according to where the customers engaging in cryptoasset transactions are tax resident. In return the UK will receive information about UK tax residents' cryptoasset activities with reporting cryptoasset service providers based in other participating CARF jurisdictions. This will provide valuable data to tax authorities in order to tackle evasion and avoidance and encourage customers to meet their tax obligations.

What was the previous policy, how is this different?

5.2 The CARF does not replace any previous policy. The UK has previously implemented other exchange of information agreements for other areas. The CARF is the latest to be adopted. It will help prevent the avoidance of reporting under the Common Reporting Standard (CRS), an automatic exchange of information regime similar to the CARF which requires reporting of traditional financial accounts. Those who move their assets from traditional financial accounts to the form of cryptoassets will still have their information reported to their tax authority, under the CARF, in most cases.

5.3 HMRC has existing information powers, such as Schedule 23 to the Finance Act 2011, that can be used to gather information on cryptoasset activity from reporting cryptoasset service providers in the UK. The CARF standardises the data reporting process across tax jurisdictions signed up to the CARF whilst increasing the availability of tax information associated with cryptoassets.

5.4 This instrument introduces a requirement for UK reporting cryptoasset service providers to register with HMRC's Automatic Exchange of Information (AEOI) portal. This includes those who are not required to report because they have made a notification to HMRC that they are reporting in another tax jurisdiction within the CARF. This will inform HMRC of the population of UK reporting cryptoasset service providers, all of which will have due diligence requirements.

5.5 This instrument provides for penalties to be applicable to reporting cryptoasset service providers who fail to meet their obligations under the CARF or to register with HMRC. As effective implementation of the CARF also depends on self-certification of tax residence, this instrument introduces a higher penalty on reporting cryptoasset service providers that fail to collect valid self-certifications from cryptoasset users, and controlling persons, than that applicable for other breaches of the due diligence requirements. It also imposes a requirement on cryptoasset users and controlling persons to provide a valid self-certification to their service providers.

6. Legislative and Legal Context

How has the law changed?

6.1 On 10 October 2022, the OECD published the CARF which was subsequently amended in June and October 2023. The CARF is a set of rules, applying to businesses that facilitate the exchange of cryptoassets on behalf of their customers, for

participating OECD jurisdictions to implement in their domestic law. The CARF requires these reporting cryptoasset service providers to undertake due diligence on their customers and where necessary report information about their customers and details of their transactions to the tax authority where the reporting cryptoasset service providers are resident. The information will be exchanged with other participating tax authorities (those that are also implementing the CARF) where the customers are tax resident.

6.2 At Autumn Budget 2024, the government confirmed that it would implement the CARF. 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 will bring the CARF into effect in the UK from 1 January 2026. This instrument is being laid on the same day as The International Tax Compliance (Amendment) Regulations 2025. That instrument amends the CRS. The OECD developed the CARF and the amendments to the CRS as a complementary package.

Why was this approach taken to change the law?

6.3 Section 349(2) of the Finance (No. 2) Act 2023 has been amended to make reference to the CARF and these regulations are made under the powers in section 349 as a proportionate and appropriate way of proceeding.

7. Consultation

Summary of consultation outcome and **methodology**

7.1 The government consulted on the UK implementation of the OECD CARF from 6 March to 29 May 2024. The government's response to the consultation[1] was published on 30 November 2024. HMRC received thirty-three written responses from a range of stakeholders including cryptoasset businesses, third party representatives and accountancy firms. In general, respondents were supportive of the proposals and recognised the benefits of an internationally agreed approach to reporting on cryptoassets. Draft regulations for the CARF were published on the same day as the response document.

7.2 There was a range of views on some of the specific questions posed by the consultation. The cryptoasset market is evolving at a rapid pace and the government recognised that HMRC guidance will be required in some areas. HMRC will continue to collaborate with stakeholders to develop detailed guidance. One of the questions raised by the consultation was whether the CARF should be extended to include reporting on UK resident customers by UK reporting cryptoasset service providers. The majority of respondents were in favour of this proposal. These regulations do not include UK reporting (they only include reporting by UK reporting cryptoasset service providers reporting on non-UK resident customers), but the government will legislate further to implement UK reporting on UK resident customers. .

8. Applicable Guidance

8.1 HMRC is working with stakeholders to develop guidance on the application of these regulations. The guidance will be published in HMRC's International Exchange of Information Manual[2]

[1] https://www.gov.uk/government/consultations/cryptoasset-reporting-framework-and-common-reporting-standard

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

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

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

Impact on businesses, charities and voluntary bodies.

9.2 There is a significant impact with ongoing costs on businesses who are UK reporting cryptoasset service providers as outlined in the TIIN. However, the vast majority of UK businesses are not impacted. There is no impact on charities or voluntary bodies because the instrument is not relevant to their activities, so they are not in scope of the legislation.

9.3 The legislation does not impact small or micro businesses in general.

9.4 There may be a small number of small or micro businesses who are reporting cryptoasset service providers. In the event that small or micro businesses (employing up to fifty people) are affected by these regulations they will not be exempted from the requirements of these regulations. This is because the CARF is an international standard requiring reporting of all reporting cryptoasset service providers and their customers undertaking transactions in relevant cryptoassets. The benefits of consistent application of the rules outweigh the potential benefits of any exclusions or exemptions for small businesses.

9.5 There is no impact on the public sector because it is not in scope for reporting under these regulations.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The legislation will be monitored and reviewed by HMRC in line with wider monitoring of the tax system.

10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, James Murray MP has made the following statement: "This instrument relates to tax, so there is no obligation to include such a clause in accordance with section 28(3) of the Small Business, Enterprise and Employment Act 2015."

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

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").