

## Analysis

# Mining for information: preparing for CARF

## Speed read

On 25 June, HMRC issued a paper on the implementation of the Cryptoasset Reporting Framework (CARF), which is due to come into force on 1 January 2026. Under CARF, UK-based reporting cryptoasset service providers (RCASPs) will be required to collect and verify information about cryptoasset users and transactions and to make related reports to HMRC. CARF represents a fundamental change in HMRC's ability to target crypto investors and is estimated to generate more than £80m in additional revenue per year by 2029/30. Those operating in the industry should ensure that they are thoroughly prepared for what will be a significant new compliance burden.



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## The rise of cryptoassets

HMRC define a cryptoasset as a cryptographically secured digital representation of value or contractual rights that can be transferred, stored or traded electronically. The most common form of cryptoassets are exchange tokens. These 'tokens' represent a unit which can be used as a form of payment and are increasingly popular as an investment. These particular tokens are traded on an 'exchange'. Bitcoin, perhaps the most well-known cryptoasset, is an example of an exchange token. However, the scope of HMRC's definition can cover a number of different types of digital assets, both fungible and non-fungible, including those representing rights to games, works of art, physical property or financial documents that can be traded or transferred in a digital manner. New cryptoassets are regularly becoming available. There has, for instance, been growing interest in stablecoins, a type of cryptocurrency whose value is pegged to another asset (such as a fiat currency) in order to maintain a stable price (with the aim of reducing the perception that cryptoassets are inherently volatile).

Recent research conducted by the FCA has indicated a growing interest and acceptance of cryptoassets amongst the wider public. According to that research, 93% of the UK general public had heard of cryptoassets and around 12% of UK adults owned cryptoassets, up from 4% in 2021. When this 12% figure is extrapolated across the UK population it comes to around seven million adults – a significant proportion of the overall population.

The novelty and rise in popularity of cryptoassets has seen

this become an area of increased focus for HMRC. Although UK tax legislation does not deal specifically with the taxation of cryptoassets, in March 2021 HMRC published a dedicated *Cryptoassets Manual* setting out how general principles of UK tax rules should apply. Broadly, HMRC's view is that CGT will apply in the majority of cases when individual investors make disposals of their cryptoassets, including exchanges for other assets (although income tax and NICs can arise in certain circumstances). The potential for investors to make significant gains very quickly therefore means that there is a huge amount of potential tax at stake.

## Analogue tools for a digital age

The problem for HMRC is that cryptoasset investors and transactions involving UK taxpayers have not been easily traceable by traditional means. HMRC's current information on cryptoasset investors currently derives from a variety of possible sources, including directly from crypto exchanges and other service providers. In a response to a recent Freedom of Information request made by the authors, for example, HMRC confirmed that they had used their statutory information gathering powers (under FA 2011 Sch 23) to seek information from cryptoasset exchanges in each of the tax years from 2020/21 to 2023/24 inclusive.

In practice, however, exchange and other service providers based outside the UK may be beyond HMRC's jurisdiction. As observed by the OECD, relevant service providers may even have no physical base and carry out their duties entirely remotely. The OECD has also highlighted that the current system allows for users to hold cryptoassets in wallets that are not affiliated with any particular service provider and which can then be transferred between jurisdictions.

Clearly, this is not a problem unique to HMRC and the UK. The OECD has long been discussing the most effective way to regulate cryptoassets. In 2014, it introduced the Common Reporting Standard (CRS) with the aim of increasing cross-border transparency. However, a significant issue with CRS is that it deals with financial institutions generally and not cryptoasset service providers – which have become an increasingly important part of the crypto landscape. This has left an obvious gap as these service providers may fall outside CRS.

HMRC have therefore become increasingly reliant on other tactics, primarily based on taxpayer voluntary disclosure. In November 2023, HMRC launched a new disclosure facility specifically aimed at cryptoassets. HMRC also inserted a dedicated section for cryptoassets on the self-assessment form for 2024/25 onwards. Similarly, HMRC have sent out 'nudge' letters to cryptoasset owners who they suspected of not paying the right amount of tax.

## What is CARF?

To address these challenges, the OECD has developed CARF with the aim of establishing an international reporting system. The intention is that information obtained will be shared between jurisdictions to allow tax authorities to target local non-compliance.

In the UK, the rules around CARF are included in the Reporting Cryptoasset Service Providers (Due Diligence and Reporting Requirements) Regulations, SI 2025/744. Under these provisions, from 1 January 2026, UK-based RCASPs will be responsible for gathering information and sharing it with HMRC. RCASPs include individuals or entities that, as a business, provide a service for effectuating exchange transactions for or on behalf of users, including by acting as a counterparty or intermediary, or making available a trading

platform. This broad definition captures dealers acting on their own account to buy and sell cryptoassets, operators of cryptoasset ATMs and brokers.

Only those RCASPs based in the UK will need to collect information and report to HMRC. This will cover businesses and individuals which are tax resident in the UK, managed or incorporated in the UK or have a branch in the UK. Should an entity be based in both the UK and another CARF jurisdiction, the country in which to report will be determined by a ranking system in which tax residence is the most significant factor. HMRC have stated that around fifty RCASPs will be 'significantly' impacted by CARF, but given the broad definition of RCASP that figure should be treated with caution.

RCASPs will need to collect information relating to all individuals and entities (companies, partnerships, charities and trusts) for which they have provided services. For individuals, the information collected will include name, date of birth, address, country of residence, national insurance number and/or unique taxpayer reference number. For entities, the information collected will include the registered company name and registered address along with the company registration number. Details relating to individual transactions including the value, type of cryptoasset and the number of units will also be collected.

## CARF may be just the beginning of a new age of tax enforcement and scrutiny for the crypto industry

Once obtained, the relevant information will need to be verified by the RCASP using due diligence procedures before being shared annually with HMRC. The first reports will need to be shared online using an XML schema and are due by 31 May 2027 for the 2026 calendar year. RCASPs will need to have registered with HMRC by 31 January 2027 and failure to do so can result in a penalty. Other key features of the penalty regime include a penalty for a failure to keep records, a penalty for failing to report on time and for failing to provide information to HMRC. Penalties can also be charged for inaccurate or incomplete reports and for failing to apply due diligence procedures.

### What action should businesses take?

In light of how broadly it is drafted, many businesses will need to first determine whether they fall within the 'RCASP' definition. If a business is unsure of whether they meet the definition, they should seek appropriate legal advice. As noted above, significant penalties can apply if an RCASP fails to meet its obligations. It would be unwise to assume that HMRC will put any failure to collect or report down to confusion or 'teething' problems. Given that CARF is an OECD-wide initiative and that the UK is one of many jurisdictions to have been involved in extensive preparatory discussions, it should be anticipated that HMRC will implement a strict approach towards compliance.

Those in scope will need to consider whether they have appropriate measures in place to ensure that information is being accurately logged. There may be some RCASPs who already fall within CRS and for them the change may not be as significant. However, for others this may be their first experience of using due diligence procedures to collect, verify and report data in this way. RCASPs will need to ensure they have developed appropriate systems to securely store sensitive information, as well as stringent due diligence mechanisms

to verify information. In some circumstances, specialist forensics tools may be needed to scrutinise and verify data. As noted above, information will, in due course, need to be shared using an XML Schema, and it should be considered whether AI or data analytics tools can be used to help make this as efficient as possible. For those RCASPs operating across different jurisdictions, a coordinated approach to data collection and storage will be needed.

HMRC have estimated the continuing administrative burden on business is likely to amount to almost £1m, which may include new IT infrastructure and software, as well as the cost of training and hiring staff and onboarding users in accordance with anti-money laundering requirements. In short, this is a significant compliance burden. To ensure that they are appropriately equipped, RCASPs should be putting these changes into practice as soon as they can, and in any event well before 1 January 2026. They should also ensure they are regularly testing and reviewing the appropriate controls they have in place. The commercial impact of sharing user data will also be need to be taken into account.

Relevant businesses should also keep a close eye on HMRC's manual and other materials as HMRC's visibility over the crypto industry grows as a result of the information gathered through CARF. It may be that HMRC publish a specific manual for CARF in the coming months, much in the same way that specific guidance was published for the digital platform reporting rules.

### Final thought

It is important to remember that CARF is simply a means to an end. HMRC's latest policy paper notes that the information gained 'will be used to identify and risk assess individuals and help them meet their tax obligations'. HMRC estimate the impact on the exchequer as follows:

2026/27	2027/28	2028/29	2029/30
+£40m	+£110m	+£85m	+£80m

Aside from the compliance burden and potential administrative penalties, therefore, a potentially more daunting issue for RCASPs is what HMRC might do when presented with an unprecedented amount of information on crypto investors. If HMRC discover potentially hundreds or even thousands of non-compliant UK crypto investors through CARF, it would clearly be far more efficient for HMRC to pursue any relevant service providers that have potentially facilitated that non-compliance. If the non-compliance in question is deliberate, HMRC already have legislation at their disposal to pursue corporates for corporation criminal prosecution if they fail to prevent an 'associated person' from facilitating tax evasion by a third party (i.e. under the Criminal Finances Act 2017 (CFA)) and, from September 2025, under the new failure to prevent fraud offence in the Economic Crime and Corporate Transparency Act 2023 (ECCTA). Moreover, the CFA and ECCTA offences have extra-territorial effect, meaning HMRC may not face the same jurisdictional barriers as they have to date when dealing with the industry.

In other words, CARF may be just the beginning of a new age of tax enforcement and scrutiny for the crypto industry. ■

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