

Cryptoasset Service Providers Regulations 2025: CenTax Response

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1 About CenTax

We are researchers at the Centre for the Analysis of Taxation (CenTax), a research centre co-hosted by LSE and University of Warwick. CenTax is dedicated to improving public understanding of tax policy and helping to design a better tax system, by generating evidence that is rigorous and relevant to policymakers and the public. Further information about CenTax is available via our website.

Our work focuses on tax policy design and the measurement of tax policy outcomes. We conduct cutting-edge research on the behavioural and economic impacts of tax policy changes and have contributed substantively to debates on tax policy in the UK over recent years. We use HMRC administrative data accessed through a secure research environment that allows us to compare academic research findings with official government costings, providing insight into how policy analyses are conducted.

We sent this in response to the government's consultation on Draft Regulations: The Cryptoasset Service Providers (Due Diligence and Reporting Requirements) Regulations 2025 which can be found [here](#).

2 Response

The Crypto-Asset Reporting Framework (CARF) developed by the Organisation for Economic Cooperation and Development (OECD) introduces new reporting requirements for crypto-assets. We welcome this effort to enhance global tax transparency, by expanding the Common Reporting Standard (CRS) to additional asset classes. The Common Reporting Standard established automatic exchange of information about most financial assets and limited the possibilities to hide financial accounts offshore.¹ However, it currently leaves out of scope non-financial assets and new types of assets such as cryptocurrencies. This is especially important in light of recent academic evidence that shows that while the size of the

¹Alstadsæter, A., Godar, S., Nicolaidis, P. and Zucman, G., 2023. Global tax evasion report 2024, EU Tax Observatory.

cryptocurrency market has been increasing over the last few years, reporting rates of these assets to tax authorities are still relatively low.²

We present four high-level comments on the implementation of the CARF to enhance the benefits it can have on tax compliance and enforcement:

2.1 Cryptoassets do not yield stable flows of income

One difference between cryptoassets and most financial assets already covered by the CRS is that cryptoassets typically do not yield taxable income. Instead, most of the returns usually come from taxable gains on the disposal of the cryptoassets. Therefore, it is essential that the information collected under CARF allows HMRC to identify taxable gains on cryptoassets accurately, for evaluating the tax obligations of UK taxpayers.

The information reported under the current draft of the Cryptoasset Service Providers regulations includes the information set out in Section II(A) to (F) of the CARF rules. We stress that it is essential that the reporting requirements are not weakened, and that information about the acquisition and disposal transactions should at least include the gross amount paid, gross amount received and the fair market value for each transaction. This information constitutes the minimum required to be able to assess taxable gains arising from cryptoasset transactions. Unlike with bank deposits or shareholdings, information about transactions is more relevant than information about holdings, and this should drive the practical implementation of these rules.

2.2 Disintermediation of crypto assets' market

The scope of the regulations also raises the question of the treatment of cryptoasset transactions that do not go through a cryptoasset service provider (CSP). Our understanding of the current CARF regulations is that no information would be reported in the case of self-hosted crypto wallets, as these portfolios are not hosted by cryptoasset service providers. As the structure of CRS (and consequently of CARF) is based on the role of intermediaries, this weakness in the reporting frameworks is to a certain extent inevitable. However, certain information about self-hosted crypto wallets could be required from CSP whenever their users transact with a self-hosted crypto wallet. This would provide a basic level of information that can help identify non-compliance from individuals holding self-hosted

²Barake, M., Le Pouhaër, E., Økland, A., 2024. Who owns cryptocurrency?. Skatteforsk Working Paper Series n.17, (2024-06), for Norway.

crypto wallets.³ It would also be a welcome step in developing some evidence that could be used to estimate the share of cryptoassets value and the share of transactions that such wallets account for in the cryptocurrency market.

Failure to capture information about self-hosted crypto wallets will only provide incentives to move away from CSP towards decentralised crypto exchanges, undermining the rationale behind the CARF.

Finally, HMRC should remain conscious that the CARF will be less effective than the CRS due to this feature of disintermediation, so additional reporting of cryptoassets should be considered in a wider regulatory context to complement the information received through CARF.

2.3 Domestic reporting should also be part of the regulations

Another important distinction between assets reported through CRS and CARF is the extent of available information on cryptoassets held domestically. While traditional financial assets held domestically are subject to substantial third-party reporting, the same does not apply to cryptoassets. This makes the introduction of CARF a good opportunity to get the relevant information on cryptoasset ownership to enhance tax enforcement while minimising the compliance burden of CSP (as they will be implementing reporting regimes that would require minimal additional work to make them cover domestic holdings).

Domestic reporting would also increase the contact between self-hosted crypto wallets and reportable users of CSP, which would further expand the information collected on this decentralised cryptoasset market.

2.4 Proper administrative resourcing is key to obtain the benefits of CARF

Once information about taxable gains from cryptoassets has been received, it is also crucial that HMRC has a strategy established to analyse the data and correctly assess the liabilities of taxpayers. This supposes the design of a credible plan and the allocation of sufficient resources to the analysis of the data received. Ensuring HMRC has a plan to analyse data received under CARF will strengthen its enforcement efforts and enable the identification of potential non-compliance. It will also allow HMRC to evaluate the quality of the information received under CARF, and to establish recommendations for further development of the regulations to the OECD.

³This point has also been raised by the Tax Justice Network analysis of DAC8.

The capacity that HMRC should aim to build (both for CRS and CARF) is to link and analyse data at scale (e.g. not on a case-by-case basis) and develop methods to identify indicators of non-compliance that could help better target tax audits. In this area, we believe developing partnerships with academic researchers can be very fruitful, and we encourage HMRC to develop strategies to engage with the academic community in obtaining the most value from CRS and CARF data.