

Briefing: The unique risks crypto currency donations pose to UK democracy

Due to the anonymity that cryptocurrency can afford, and the way it can be used to obscure the true source of funds (including from the proceeds of crime), political donations in cryptocurrency present particularly high risks of:

- *impermissible donations including from foreign actors or hostile states, and*
- *donations that might originate from criminality.*

The UK currently has no bespoke rules to tackle the pressing challenges that cryptocurrency donations pose to the health of our democracy. Three political parties in the UK have now said they will accept political donations in crypto. Although uptake has been slow so far, without urgent action this could become a flood.

Because of the unique risks it poses, several jurisdictions, as well as some states in the USA, have prohibited crypto donations to political parties and candidates.

To address these risks:

- **The Electoral Commission should come forward with robust guidance on crypto donations at the earliest opportunity (requiring that cryptocurrency donations are made from regulated bodies, are prohibited from anonymous wallets, and that they are converted into sterling via a regulated financial institution within 48 hours of receipt).**
- **The Government should use its upcoming Elections Bill to seriously consider prohibiting cryptocurrency donations altogether.**

Banning crypto donations on its own will not be enough to tackle the risks cryptocurrency poses however. The wider loopholes that enable anonymous, impermissible or criminal donations, particularly via third parties, must also be addressed. In particular, it is critical that the government:

- **Ensures that corporate donations can only be made from net profits made within the UK in the preceding two years to prevent companies being a route for illicit donations that originate from crypto.**
- **Ensures that the UK's electoral laws expressly prohibit money being indirectly or directly received from foreign impermissible sources, and require greater due diligence by parties and candidates to verify this.**

1. The risks and challenges of crypto donations

1.1 The inherently borderless nature of cryptocurrencies, the anonymity they can provide, and the difficulties of tracing their origin, pose significant challenges for political parties and regulators trying to determine whether they are permissible under electoral law.

1.2. Bad actors looking to undermine UK democracy, or to get around the rules, can conceal or obfuscate the true source of their crypto donations through the use of tools such as secrecy coins, mixer accounts, 'smurfing', 'chain hopping', and coin-swapping services.

1.3 The UK's current regulatory framework around political finance is particularly vulnerable to 'smurfing', where large transactions can be fragmented into small amounts through the use of multiple crypto wallets generated by AI. Given that political parties [do not need](#) to conduct permissibility checks on donations under £500, or report them to the Electoral Commission, smurfing and the increasing option of crypto political fundraising through crowdfunding platforms can result in thousands of untraceable, unreported, and unrecorded donations.

1.4 For crypto donations that meet the £11,180 reporting threshold, there is a lack of clarity around how far back parties are obliged to go through the transaction chain to establish their source. And there is currently no obligation for political parties to disclose their crypto wallet addresses, meaning that real time monitoring of crypto donations is rarely possible.

1.5 Given the fact that cryptocurrency is [frequently used](#) to launder criminal assets, there is an additional risk that cryptocurrency donations could inject illicit funds into the UK's political finance. This risk is amplified by the lack of clarity under current electoral law as to whether donations (in whatever form) that derive from the proceeds of crime are actually prohibited.

1.6. Recent [donations scandals](#) in Spain and Czechia which involve allegedly criminal assets laundered through crypto donations highlight how real these risks are.

2. The current state of crypto donations in the UK

2.1 To date, only three UK political parties have indicated they will accept crypto donations: [Reform UK](#), [Homeland Party](#) and [the Other Party](#). Another party, [Advance UK](#) has indicated that it might also open a crypto wallet.

2.2. Only two parties have publicly acknowledged receiving donations in crypto currency to date. The Homeland Party, which has a public [wallet address](#), has received one bitcoin donation with a value of roughly £27. Reform UK [confirmed](#) that it has received "a couple" of crypto donations. The party outsources its due diligence on crypto donations to third-party crypto payment provider, [Radom](#) – which is not regulated in the UK, and recycles intermediary crypto wallets amongst its clients.

2.3. Due to the slow wheels of political finance transparency, it may not be until March next year that the public will have a fuller picture of recent crypto donation levels.

2.4. Crypto donations to political parties are currently permissible in the UK and regulated in the same way as their fiat equivalents through [rudimentary guidance](#) last updated two years ago. The Electoral Commission has flagged that it will [be introducing](#) updated guidance on crypto donations in the near future.

2.5. However, new regulations are unlikely to fully resolve the challenges of enforcement that arise from crypto donations. The Electoral Commission has [flagged](#) to Parliament that the resources required to trace the true origins of crypto donations are "*very significant*" and that "*particularly abroad it is very hard to work out who is actually controlling or owning*" a crypto wallet.

2.6. The Commission has also flagged that the "*technological challenges*" involved with crypto means that it would need "*additional powers*" to trace the source of donations. To regulate crypto donations effectively will require very specialist skills and it is likely to impose a significant cost on the public purse to ensure the Electoral Commission has the tools to do so.

3. What happens in other jurisdictions

2.3 [Ireland](#) and [Brazil](#) have banned crypto donations to political parties. Some US states have also prohibited them, including [Oregon](#), [North Carolina](#) and [Michigan](#).

2.4. Other states in the US permit crypto donations, but place tight regulations on them. For example, the [State of California](#) permits political crypto donations made through a payment processor that is registered

with the Treasury Department and therefore is required to conduct appropriate permissibility and KYC checks. The [State of Washington](#) also allows crypto contributions, but has imposed a \$100 cap and requires committees to convert these donations to traditional US currency within five days of receipt.

4. Tackling the other loopholes that would enable cryptocurrency donations

Closing corporate donation loopholes

4.1. Currently companies can donate to parties and candidates if they are registered in the UK and carry on business here. The government has rightly identified that this does not prevent companies being used as shell companies through which impermissible donations can be made, creating high risks of illicit donations including those that might come from hostile foreign actors.

4.2. The government has [proposed](#) a new test in the forthcoming elections bill that companies must have made “*sufficient UK (or Ireland) generated income*” in order to donate. However, the Electoral Commission has [expressed](#) concern that this will not be robust enough.

4.3. In line with [recommendations](#) from the Committee on Standards in Public Life, the Commission has recommended that company donations should not be greater than net profits made in the UK in the previous two years. Along with a new stronger UK connection test, such as that a company must have its headquarters here, this is a critical reform.

4.4. However, cryptocurrency in the UK is not treated as income or profit for tax purposes but rather as an asset. To prevent a company that otherwise complies with the new UK connection and profit test from receiving a cryptocurrency payment from a dubious source and using it to donate, new rules should ensure that donations can only be made from profit generated within the past two years, and not from corporate assets.

Preventing donations via third parties

4.4. It has been almost impossible for prosecutors to launch successful criminal proceedings against those who facilitate illegal donations as intermediaries. The government intends to address this by requiring donors to declare if they have received any money or benefit worth more than £7,500 from another person in connection with their donation – something that was originally included in PPERA but not brought into force.

4.5. Requiring this declaration will be a step forward, but is unlikely to be sufficient, according to legal analysis conducted for Spotlight. Proving that a donor has been honest in their declaration may prove to be a real challenge.

4.6. To address this, and in addition to the declaration, there should be a clear prohibition in the new Bill for parties and candidates to receive donations that derive “directly or indirectly” from money or benefits provided by a person who is not eligible to donate and lives outside the UK.

4.7. Given the risks that cryptocurrency could play in facilitating or hiding payments from someone abroad who is not eligible to vote to someone in the UK who is, it is critical this provision is strengthened, and that penalties (including sentences) for breaching permissibility rules are made much higher.