ShareSoc
UK Individual Shareholders Society

Suite 34, 5 Liberty Square, Kings Hill,
West Malling, ME19 4AU
Phone: 0333-200-1595
Web: www.sharesoc.org

Office of Tax Simplification

Via Email: ots@ots.gsi.gov.uk

24 December 2016

Simplification review of stamp duty on shares

Dear Sirs,

We are responding to your request for comments on the reform of Stamp Duty on paper transactions. As an organisation we represent the interests of private shareholders who directly hold shares in public companies so we have an interest in this matter.

Our members are concerned with this matter in two ways:

1) Because they are sometimes involved with off-market transfers of certificated holdings - for example because they wish to transfer holdings to relatives, have sold their shares directly to third parties, or when acting as executors of estates.

2) Because they are affected by the costs of stamp duty and the anomalies on when it is payable.

Off-market transfers.

As regards off-market transfers, where any stamp-duty payable has to be paid to HMRC (typically via cheque) the transfer has to be posted to be "stamped" by then. Clearly a quite archaic procedure in the modern world. Even when shares are held electronically (e.g. in a Personal Crest account and hence on the register), that is still the case I believe.

Only when shares are transferred via a stockbroker (when SDRT is paid), irrespective of the form in which they are held, is the process simple and automatic so far as the investor is concerned.

Now the arrangements regarding off-market transfers may change when all shares are "dematerialised" as is mandated by the EU by 2025, and is still likely to be progressed by the UK Government we understand. How off-market transfers are to be done thereafter is not clear at present. However we would be concerned if such transfers had to be done via a broker as considerable additional costs could then be incurred by our members.

It is possible that share registrars could provide a low cost electronic system to enable such transfers, and hence also pay SDRT, but that would only cover public companies where registrars maintain the share register. As regards private companies, the only solution would be for HMRC to develop an electronic system for submitting stock transfers for "stamping" and payment of the duty.

However, all of this would incur considerable costs by registrars and HMRC when the note from OTS suggest that most of the revenue raised "comes from a few dozen major corporate transactions". It would seem wiser to rethink the coverage of the tax and how it is collected, or scrap it all together as we suggest below.

Stamp Duty Anomalies and Reform

Stamp duty on shares is a tax on financial transactions. The UK Government has consistently opposed the imposition of such taxes to EU bodies, while ignoring the fact that we are one of the few countries to have such a tax in place. This seems hypocritical.

Stamp duty is a significant cost to private investors and reduces the liquidity of markets, i.e. it is a disincentive to investment in public or private companies.

There are numerous anomalies that have grown up over time as to who pays it and when it is paid. For example some institutions such as market makers do not pay stamp duty despite trading large volumes of shares. Similarly it is not applicable to the shares of companies not registered in the UK, and now to all AIM market listed shares. Stamp duty can also be avoided by using Contracts for Difference (CFDs) or spread bets to trade interests in shares, which should probably not be encouraged.

Even share transfers by private investors may be exempt or be subject to various reliefs. For example, HMRC indicate the following are exempt:

- shares that you receive as a gift and that you don’t pay anything for (either money or some other consideration)
- shares that your spouse or civil partner transfers to you when you marry or enter into a civil partnership
- shares held in trust that are transferred from one trustee to another
- transfers that a liquidator makes as settlement to shareholders when a business is wound up
- shares held as security for a loan that are transferred back to you when you repay the loan
- transfer to the beneficiaries of a trust when the trust is being wound up
- shares that someone leaves to you in their will
- shares transferred to you when you get divorced
- certain types of loan capital
- shares that are admitted to trading on a recognised growth market but not listed on any market.

In reality stamp duty on shares is an exceedingly complex tax with numerous exceptions which have grown up over the years.

Bearing in mind the relatively small amount of tax that is raised (£714 million per annum) we suggest that it would be best therefore to scrap it. Or if the loss of revenue is considered excessive, to focus a replacement tax on the high value corporate transactions with a different collection mechanism.

Yours sincerely

Roger W. Lawson
Deputy Chairman
Direct Phone: 020-8295-0378