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A joint submission on behalf of Individual Investors from ShareSoc and UKSA

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To
HM Revenue and Customs,
100 Parliament Street,
London, SW1A 2BQ.

By email to sts.consultation@hmrc.gov.uk

Modernisation of the Stamp Taxes on Shares Framework - Response to the call for evidence

This is a welcome review. We welcome the opportunity to respond.

We write on behalf of ShareSoc and UKSA, both of whom represent the views of individual investors. In addition to our own members, 6 million people own shares or have investment accounts with platforms in the UK. The Office for National Statistics estimates that at the end of 2018 UK-resident individuals held 13.5% of the UK stock market, up by 1.2% from 2016 and moving away from the historical lows of 10.2% in 2008. In 2020, the Financial Times estimated that 15% of the UK stock market is held by individual shareholders. In addition to this there are many more who have money invested in shares via funds, pensions and savings products such as employee share ownership schemes. See <https://www.sharesoc.org/investor-academy/advanced-topics/uk-stock-market-statistics/>

We note that no comments will be attributed to specific respondents unless the OTS has received permission to do so. We hereby give you permission to publish our comments and attribute them to ShareSoc/UKSA.

Please note that our specific areas of concern and expertise is in shares in quoted companies (including AIM) and in investment funds (unit trusts and investment trusts). We have limited our responses to questions that are relevant to shares and OEICS purchased on the UK stock market.

We have not responded to most questions. We have only responded to those where we have expert views and/or relevant experience.”

The question-numbers to which we have responded are 1, 6, 7, 11, 18 to 24.

Question 1: If you were designing a STS regime from scratch what would your top design principles be? What would you like a new STS regime to deliver?

STS in relation to shares should not be considered in isolation. STS is a transaction tax levied on the value of shares acquired. Income tax is then paid on dividends (but not when shares are held in an ISA or SIIP). Capital gains tax is then paid on the increase in value of the shares when they are sold (but not when shares are held in an ISA or SIIP). STS and income tax and CGT are applied to OEICs (unit trusts) similarly to shares. Stamp duty does not apply to AIM quoted shares or overseas listed shares.

The UK stock markets exist to promote investment in UK companies. A transaction tax on the purchase of UK shares has exactly the opposite effect.

Many large investors, institutions and high-frequency traders are able to avoid stamp duty through the use of options and CFDs. This penalises individual investors relative to large investors and institutions. A key design principle for a future stamp duty regime should be fairness between different types of market user.

Stamp duty discourages short term trading. We support the concept that there should be an incentive for patient capital, i.e. long term investing.

Stamp Duty provides friction. However, HFTs (high Frequency Traders) and others can avoid STS on shares. If the new STS has a design principle to provide friction (and this is possibly a big if), then it is logical to extend this principle to HFTs and others. (France is an interesting example in this respect.)

STS should be set at a lower rate (say 0.05%) and applied to all trades including HFT, CFD and spread betting.

Question 6: How would you like the Stamp Duty notification framework to operate? In particular, should there be a greater element of self-assessment?

Stamp duty on share purchases (and OEICS) should be administered by the nominee (agent) who holds the shares on behalf of the individual investor (the beneficial owner). **This should be simple: the complications should not be visible to the individual investor.** Please note the Law Commission is currently reviewing the Intermediated Securities problems and you should liaise with them.

Paper certificates may appear to be a particular problem. However we think they will largely be phased out from 2023, after dematerialisation.

We think there is a particular problem or potential problem where the nominee matches buy-sell bargains. They are not buying or selling shares so there is no stamp duty payable. However current practice is that individual investors (beneficial owners) do pay stamp duty on their investment in shares, despite not being recognised as the legal owner of those shares.

Question 7: Is it now redundant for Stamp Duty to be tied to registration of title of shares? Do you think that registrars' obligations in respect of Stamp Duty should be amended and, if so, in what way?

This is an anachronism. Shares are registered in the name of the member which in UK law is the nominee. See also our response to Q6.

Question 11: What is your experience of dealing with "residual securities"? Would you normally expect these securities to be settled by the completion of a STF?

These stocks should be wrapped up in any "dematerialisation" proposals.

Question 18: What are your views on the digitisation of Stamp Duty? Do you think that this is vital for the modernisation of the tax? Do you have any views as to the best method of achieving this?

We think you are doing the consultations in the wrong order. You should do dematerialisation first. You should park any changes to stamp duty until the solution to dematerialisation is agreed.

We think demat will happen in 2023 not 2025.

Question 19: How would you or your clients envisage holding and transferring shares in future?

We would like to see the name of the beneficial owner of the shares on the shareholder register and we would like the law changed to enable the beneficial owner to be recognised as such. The nominee would be an agent of the beneficial owner and not a member of the company (as is currently the case).

As noted under Q6, please note the Law Commission is currently reviewing the Intermediated Securities problems and you should liaise with them.

Question 20: In your view, is the STF a necessity? Could you and your clients do without an STF? What other documents could be used, for example, an agreement to transfer?

The Crest system already works for shares and funds without a STF in the vast majority of share purchases.

Question 21: Would an electronic STF be beneficial?

Yes. The solution needs to be made invisible to the individual investor.

Question 22: Would it be beneficial for HMRC to continue to accept the use of electronic signatures after the COVID-19 measures have ended?

Yes. However security issues will need to be carefully addressed.

Question 23: Are there any additional electronic processes which you and/or your clients would like to see after the COVID-19 measures have ended?

Yes, but we are not experts in this area and do not wish to comment further.

Question 24: Do you or your clients envisage using distributed ledger technology to hold records of ownership?

We suggest you should discourage such use as that technology is intrinsically insecure.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

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