ShareSoc
UK Individual Shareholders Society

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Stamp Taxes on Shares Team
HM Revenue and Customs
Room 3/63
100 Parliament Street
London
SW1A 2BQ

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

HM Revenue & Customs Open consultation: Stamp Taxes on Shares modernisation

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

This consultation is fundamentally flawed. It does not discuss the rate of taxation on UK shares, which is currently 0.5% and is hugely uncompetitive with the US, which is the largest securities market in the world.

Our analysis is that:

- The original rationale for stamp duty (cost of wax seal etc) is not just of historical interest. In this age of electronic transactions, these costs are no longer incurred and there is therefore the original justification for the charge is no longer valid.
- Stamp Duty tax is not fair. Many of those that invest do not pay it.
  - Stamp duty is not paid on overseas shares. This adds to the cost of investing in shares in the UK quoted market, for individual investors.
  - Stamp duty tax does not apply to AIM quoted shares.

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

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 is not applied to purchases of OEICs (unit trusts) but is to purchases of shares in Investment Trusts: this anomaly should be equalised, preferable by the elimination of STS, or setting it to a much lower rate (say 0.05%).

The UK stock markets exists to enable investment in UK companies. A transaction tax of 0.5% on the purchase of UK shares has exactly the opposite effect.

The UK Government says it is keen to promote retail investment in the UK. The Treasury in particular is doing a number of things to make the UK a more attractive place to list. Yet despite this, many companies are chooing to list overseas. **This consultation is contrary to the direction of travel of the UK Government.**

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.

We are not however arguing for the complete abolition of stamp duty tax on quoted shares. 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 create 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 and its 0.3% tax is a financial disincentive to locate in that country.) Hence we recommend STS should be set at a lower rate (say 0.05%) and applied to all trades including HFT, CFD and spread betting.

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 5, 8, 9, 19, 34 and 44.

Question 5 Do you agree with the proposed approach in respect of the liable and accountable persons? If not, why not and what would you suggest instead?

No. There are strong arguments for the complete abolition of stamp tax on UK shares. However we recommend a nuanced approach.

The rate of taxation on UK shares is currently 0.5% and is hugely uncompetitive with the US, which is the largest securities market in the world.

Stamp duty tax does not apply to AIM quoted shares or overseas listed shares.

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OIECs and Investment Trusts are treated differently. Investments Trusts should be aligned with OEICs and be exempt.

Question 8: Do you agree that the current SDRT geographical scope rules should apply to any new single tax on security transactions? If not, what would you suggest and why?

No. see above for reasons.

Question 9: Do you agree it is not necessary to define where an electronic share register is kept under any new single tax on securities? If not, why not?

Yes.

Question 19: Do you agree that this is the correct way to deal with call options and warrants?

Yes.

Question 34 Question 34: Do you agree with the reasoning behind the proposal to remove the de minimis? If not, what justification can you give for retaining it?

No. The reasons for a limit still apply. The original £1,000 limit should have been indexed to the the increase in share prices (total return). We suggest £10,000 as the new limit.

Question 44: Do you agree that the growth market exemption should be retained under any new single tax? If not, why not?

Yes.

We write on behalf of ShareSoc who represent the views of individual investors. In addition to our own 9,000 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 you have received permission to do so. We hereby give you permission to publish our comments and attribute them to ShareSoc.

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.

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

Yours faithfully,

Cliff Weight
ShareSoc