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Dear Sirs,

**Simplification review of residual paper Stamp Duty on shares: Progress report and call for evidence**

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

We welcome the opportunity to respond to the Office of Tax Simplification's (OTS) call for evidence regarding its simplification review of residual paper on Stamp Duty on shares.

The Quoted Companies Alliance Share Schemes and Tax Expert Groups have examined your proposals and advised on this response. A list of the Expert Group members is at Appendix A.

***Responses to specific questions***

**Part 1 – Digitising Stamp Duty**

**Q1 Does this outline offer a potentially workable and efficient digital system for SD? As well as shares, should it cover other transaction types within the scope of SD?**

We believe that the outline provides a potentially workable and efficient digital system for SD. It would be a significant improvement on the existing system. We note that e-signatures are already in use for many transactions, although we recognise that for an effective digital system, there could be technological obstacles (for example the availability and cost of any new computer systems or software).

If HMRC accepted Electronic Stock Transfer Forms (E-STFs), this would future-proof SD administration and build long-term certainty and stability into the system. An E-STF could be held in a secure portal that company registrars, Companies House, HMRC and other key stakeholders could access.

We believe that digital SD should apply to other transaction types within the scope of SD, such as transfers of stock or marketable securities other than shares. Ensuring that the scope of digital SD is the same as the existing SD system would be both simpler and eliminate the risk of losing significant revenue.

**Q2 How should it be developed? What features should it provide? What are the costs and benefits of different approaches?**

We have no comments.

**Q3 Would it be important to incorporate STFs into the digital approach or for paper STFs to be scanned? What are other options?**

We believe that pursuing either incorporating STFs into the digital approach or scanning paper STFs could work. It would depend on the limits of the technology available. If there were fewer technological barriers an E-STF would be the quickest system (if a hard copy was needed, it could simply be printed out), although this would also be dependent on a cost-benefit analysis of creating E-STFs.

At the same time, replacing the existing stamps with some form of electronic payment with a receipt being printed and attached to the paper STF would also be a practical improvement. Although this would be less technologically sophisticated, it would be nonetheless worthwhile in the event that cost prevents the Government from pursuing a fully digitised SD system.

**Q4 What should the confirmation number/document look like?**

The confirmation number / document should be a simple certificate that can be printed or saved digitally and states the:

- Transaction;
- Consideration;
- SD payable and SD paid; and
- Time and date the SD was paid and by whom.

**Q5 What administrative costs/savings could digital SD bring?**

Digitising SD would bring substantial administrative cost savings in the form of eliminating the time delay in getting documents stamped at the Stamp Office in Birmingham. This would also remove both monetary costs of sending staff members to the Stamp Office directly, or using the ordinary postal system to send documents to the Stamp Office. This would also save the Stamp Office personnel's time.

**Part 2 – Technical questions**

**I. Making stamp duty a self-assessed tax with no adjudication**

**Q6 Do you think SD should be self-assessed with no adjudication, or adjudication required/mandatory as part of the self-assessment process with paper evidence later sent to HMRC in support? What would be the administrative costs/savings of this change (coupled with digital SD)?**

We believe that SD should be self-assessed, with an adjudication process being retained for complex transactions involving completion accounts, exemptions or reliefs. This would be particularly important if a pre-transaction clearance mechanism is no longer available.

In any case, we would prefer any paper evidence to be sent to HMRC in support afterwards, although we are flexible to whether adjudication is required / mandatory. Our members who have self-assessed SD would generally be expected to retain the relevant documents in case HMRC requests them.

**Q7 Should there be a dedicated pre-transaction clearance mechanism? What parameters would be needed?**

We believe that for some complex transactions, obtaining a pre-transaction clearance mechanism would be of considerable value. Allowing a review of a proposed transaction before completion – instead of an enquiry of a completed transaction – could bring significant monetary and time savings.

Regarding whether it should be "dedicated", the general mechanism for pre-transaction clearances should be used for all pre-transaction clearances. We acknowledge that this will require the attention of SD specialists at HMRC.

We would not foresee a great deal of change; we understand that the Stamp Office currently accepts pre-transaction clearances on an informal basis, which does not go through the pre-transaction clearances route that applies to direct taxes.

**Q8 Which self-assessment provisions are best suited for an umbrella SDRT or digital SD?**

We have no comments.

**Q9 Should an umbrella SDRT also include transactions upon which SDRT is manually notified to HMRC?**

We do not believe that the OTS should recommend an umbrella SDRT.

The most straightforward approach would be to have digital SD for paper transactions, so that digital SD is manually notified to HMRC, and to have SDRT for transactions within CREST. As noted in the progress report, SDRT on transactions outside CREST is a difficult area, made easier in practice because SD franks the SDRT.

**II. A tax on transfer instruments (per stamp duty) or on agreements to transfer (per stamp duty reserve tax)?**

**Q10 Would it be simpler to continue with the date of the instrument being the charging point (and not merging SD with SDRT), or to switch to a charge on agreements to transfer?**

We believe that it would be simpler to not merge SD with SDRT and continue with the date of the instrument as the charging point. The principles of SD and the process for paying the duty itself should not be changed.

**III. Assets within scope**

**Q11 Are there any disadvantages to adopting the SDRT definition of 'chargeable securities'?**

We are not aware of any disadvantages of adopting the current definition, beyond a broadening of the tax base as mentioned in your paper.

This notwithstanding, we question whether adopting the SDRT definition of "chargeable securities" for SD would indeed represent a broadening of the tax base. It could be argued that the term stock or marketable securities" can be interpreted quite broadly.

Furthermore, we question whether it could be worthwhile examining and simplifying the term “chargeable securities” as it is unnecessarily complicated. We would encourage SDRT and SD being taken into account upon any such examination.

**Q12 If there are, how might they be managed?**

We have no comments.

**IV. Consideration**

**Q13 If we recommend an umbrella SDRT, when and how should the payment obligation be triggered?**

As mentioned in Q9, we do not believe that the OTS should recommend an umbrella SDRT.

**Q14 Should an umbrella SDRT, or a digital SD, adopt the SDRT concept of consideration in ‘money or money’s worth’, along with a market valuation provision for non-monetary consideration?**

We do not think digital SD should adopt the SDRT concept of “money or money’s worth”. The current definitions of consideration should be retained, subject to one change. We would favour allowing adjustments to the amount of SD paid once the final amount of contingent consideration becomes clear, especially in order to allow refunds of overpaid SD (with interest). We accept, however, that adopting this change could lead to a loss of revenue from SD.

Furthermore, as “money or money’s worth” does not treat debt as consideration, adopting it for digital SD would be a narrowing of the charge and therefore could lead to a loss of revenue.

We agree that SDRT applies to an earn-out differently from SD, which can lead to different amounts of SD and SDRT being due in the context of the same earn-out. However, given that SD franks SDRT, we question how often this issue is a problem in practice. We believe that the balance of convenience lies in leaving the rules as they are, but permitting adjustments where the contingency principle applies.

**Q15 Should a rule be introduced to preserve the treatment of transfers from insurers to reinsurers for example, if the money or money’s worth definition was adopted?**

We are neutral as to whether a rule should be introduced to preserve the treatment of transfers from insurers to reinsurers. However, we would encourage any change in the law to be publicised in good time to allow taxpayers to familiarise themselves with the change and make the necessary adjustments.

**Q16 What would be the administrative costs/savings of umbrella SDRT?**

We do not believe that there would be significant savings in administrative costs. Furthermore, we question whether any savings would outweigh the costs of adopting a digital SD as outlined in the progress report.

## V. Exemptions and reliefs

### **Q17 What situations tend to be covered by the £1,000 exemption in practice?**

In our members' experience, the following situations tend to be covered by the £1,000 exemption in practice:

- Share disposals by individual persons;
- Dividend in specie for nil consideration where it is part of a reorganisation;
- Employee Benefit Trusts;
- Shares held under Employee Shareholder Status (ESS); and
- SH03 and STF on buyback shares.

### **Q18 If we recommend an umbrella SDRT, should the £1,000 threshold be retained for non-CREST transactions? How difficult would it be if it were dropped?**

As mentioned in Q9, we do not advocate an umbrella SDRT. However, if the OTS recommends an umbrella SDRT, a threshold of at least £1,000 for non-CREST transactions should be retained. This would reduce the administrative burdens placed on smaller companies due to their relatively small transactions being excluded. Not retaining this threshold would result in a higher number of transactions needing to be stamped. Any benefit accrued through an increase in revenue would however likely be outweighed by the administrative costs.

### **Q19 Should group relief, reconstruction relief and acquisition relief be introduced into umbrella SDRT or into SDRT if the two taxes solution is adopted?**

We advocate retaining the current franking system.

### **Q20 Are there any other SD reliefs and exemptions not directly applicable to SDRT?**

Other than the loan capital exemption, we are not aware of any other SD reliefs and exemptions not directly applicable to SDRT.

### **Q21 Are there other reliefs/exemptions available under SDRT but not SD?**

We are not aware of other reliefs/exemptions available under SDRT but not SD.

### **Q22 In the context of an umbrella SDRT, how would those be affected?**

The loan capital exemption is an exemption from stamp duty and therefore does not feature in SDRT. Any adoption of umbrella SDRT would need to consider how to accommodate the loan capital exemption.

### **Q23 If we were to recommend digital SD, should this retain the 'franking' concept or abandon it requiring certain reliefs to be added to SDRT?**

As mentioned in Q19, we advocate retaining the current franking system. It would be the most straightforward way to proceed whilst delivering a significantly speedier stamp duty process.

## VI. Other technical issues

**Q24 How should uncompleted pre-2003 land transactions be dealt with if we recommend an umbrella SDRT? How common are these and what sort of transaction are involved?**

We have no comments; in our members' experience, uncompleted pre-2003 land transactions are very rare. As noted above, we prefer a digital SD to an umbrella SD.

**Q25 How should SD on partnership interests be dealt with if we recommend an umbrella SDRT?**

No comments. As mentioned in Q9, we would prefer a digital SD to an umbrella SD.

**Q26 Should the rules for transfer of partnership interests be reformed? If yes, in what ways?**

Reforming the rules for transfer of partnership interests would be an ambitious step. Although such reforms could be potentially worthwhile, they could also result in loss of revenue and significant parliamentary time. We would not want to see this reform hinder progress on digesting SD.

**Q27 How should an umbrella SDRT deal with options and share buybacks?**

We have no comments. As mentioned in Q9, we would prefer a digital SD to an umbrella SD.

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

Yours faithfully,



Tim Ward

Chief Executive

**Quoted Companies Alliance Share Schemes Expert Group**

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## **Quoted Companies Alliance Tax Expert Group**

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