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Stamp Taxes on Shares
HM Revenue and Customs
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Thursday 22 June 2023

Dear HMRC colleagues,

Stamp Taxes on Shares Modernisation

We welcome the opportunity to respond to your consultation on stamp taxes on shares modernisation.

The Quoted Companies Alliance has examined the proposals and advised on this response from the viewpoint of public companies, with emphasis on small and mid-sized quoted companies.

Overall, we welcome the government's proposals to reform the current dual stamp duty and stamp duty reserve tax (SDRT) charges on shares with a single tax on securities. Following the Office of Tax Simplification (OTS) report in 2017 and HMRC's consultation in 2020, we urge the government to move forward with the reforms quickly in order to speed up the process of digitalising the UK's tax system.

The current stamp duty system is anachronistic, and causes uncertainty and delays in registering the transfers of shares. The final position will need to be assessed once the proposals have been finalised and the draft legislation produced, but the overall objective of modernising the system, simplifying administration and reducing the delays associated with the current regime is much needed.

It is also imperative that HMRC gives broader consideration to stamp duty and SDRT, with particular focus on how they compare with competitor jurisdictions, their impact on capital flows, and how they support growth companies. Making amendments to the taxes could improve levels of liquidity in the shares of smaller companies, helping to lower the cost of capital and thus improve the effectiveness of public markets for these companies.

We believe that the UK's tax system has played a role in the decline in number of companies on the UK's exchanges. Stamp taxes represent a cost to both companies and investors, and are indicative of the preferential treatment of debt over equity that discourages companies from raising equity finance because of the unwarranted corporate tax advantage in raising debt. There is currently a quadruple tax on equities in the UK – capital gains tax, income tax, dividend tax, and a transaction tax via stamp duty.

In producing our response, we have limited our submission to certain specific questions that are most relevant to small and mid-sized quoted companies and those who advise them.

However, two issues we want to highlight are in relation to:

- 1. The need to retain the growth market exemption; and**
- 2. The need to consider reducing the level of stamp taxes and granting a similar benefit to the growth market exemption to companies listed on the Main Market of the London Stock Exchange (please see further detail in our response to Q45 below).**

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,



James Ashton
Chief Executive

Q1 Do you agree that the government should pursue a single tax on securities instead of maintaining two separate taxes?

Yes – we agree that the government should pursue a single tax on securities instead of maintaining the current system of two separate taxes. The current system is outdated and creates issues, most notably as a result of the administration processes and in causing delays.

Q2 Do you agree that any new single tax should be self-assessed with transactions that are not processed through CREST being reported and paid via a new HMRC online portal?

Yes – we agree that any new single tax should be self-assessed without the need for manual processing.

Q7 Do you agree that a single accountable date of 14 days from the charging point would work and is the correct approach? If not, what would you do differently and why?

The proposed reduction to the time limit from 30 to 14 days, combined with the change to the running period from the completion date to the unconditional date, may cause some issues, in particular, for split exchange and completion transactions. This could lead to higher levels of uncertainty over deadlines and may mean that the duty will need to be paid very close to completion, leading to challenges in ensuring the duty is calculated accurately in advance and paid on time.

It is important to ensure that a user-friendly online portal is available for market participants to use.

Q34 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 – we do not agree with the proposal to remove the £1,000 de minimis that currently exists for stamp duty. The de minimis was put in place to minimise the admin burden for smaller transactions, but also helps to encourage smaller levels of investment, and we believe it should be maintained for this reason.

Retail investors play a vital role in stimulating the liquidity and the trading of shares in smaller quoted companies, as well as providing finance for them. Removing the de minimis would therefore act as a disincentive to investing by retail investors.

Q44 Do you agree that the growth market exemption should be retained under any new single tax? If not, why not?

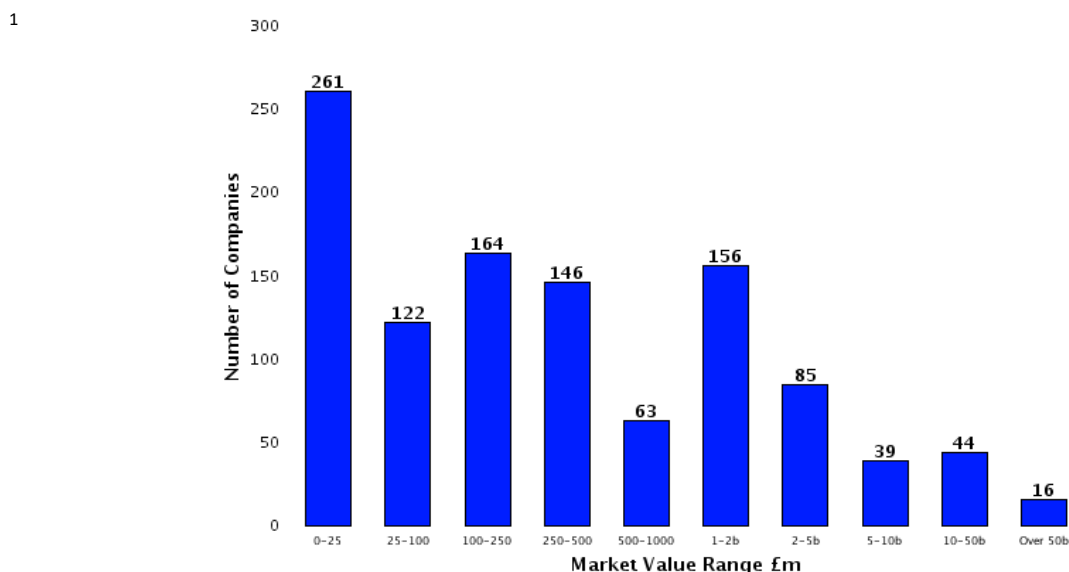
Yes – we agree that the growth market exemption should be retained under the proposed new single tax regime. The growth market exemption on markets such as AIM has helped to boost liquidity and stimulate investment in small and mid-sized quoted companies. This has reduced the cost of investing in the market, and reduced the cost of capital for companies, meaning that they are able to fund their growth more easily.

We strongly believe that the exemption should be retained due to the important role it has played in encouraging investment by both retail and institutional investors thus supporting the growth of UK PLC.

Q45 In light of the consideration of reliefs and exemptions and their continued functionality, are there any market developments that should be considered?

Yes – we believe that consideration should be given to providing companies on the Main Market of the London Stock Exchange with a similar benefit to the growth market exemption. There are many small and

mid-sized quoted companies on the Main Market that would benefit greatly from the removal of stamp duty on shares.



The graph above highlights the distribution of companies by equity market value on the Main Market of the London Stock Exchange. In total, there are 1,086 companies listed on this market. Over 750 of these companies have a market capitalisation of less than £1 billion, which is considered, by most definitions, to be small or mid-sized. These companies often encounter similar difficulties to those on AIM in terms of attracting investment.

The current tax system in the UK is not conducive to encouraging equity financing, with the UK falling behind other jurisdictions such as the US and Europe. For instance, the US and Germany do not tax the transfer of shares, while in France the transaction tax is levied at 0.1% and in Spain stocks have a 0.2% levy for companies valued at over £1 billion. The UK's tax system should encourage investment into our public markets in order to prevent companies de-listing or moving their listing elsewhere. A recalibration of the tax system is needed if the UK is to restore its competitiveness on an international scale.

In this light, we believe that the UK should seek to reduce the stamp tax on shares from 0.5% to 0.1% in order to decrease the competitive disadvantage the UK has over these jurisdictions. Moreover, we also believe that the growth market exemption should be applied further. If it is undesirable to apply the exemption on a universal basis to all listed companies, consideration should be given to applying it to companies under a certain market capitalisation threshold, which we believe should be companies with a market capitalisation of less than £1 billion.

We believe this proposal is particularly desirable on two fronts. Firstly, the exemption is targeted at the companies that need it most, and would allow them to benefit from improved levels of investment and liquidity in their shares. Secondly, and as it can be readily assumed that the majority of the income collected from stamp tax on transactions occurs from companies within the FTSE 350 given that their shares are traded to a much greater extent than smaller companies, the cost to the Exchequer would be sufficiently low.

¹ Source: London Stock Exchange, Main Market Factsheet May 2023

Q46 Do you agree that the compliance regime as outlined above is appropriate and proportionate for any new single tax on shares?

Broadly, we consider that the compliance regime outlined in the consultation for any new single tax on shares is appropriate. However, as highlighted in our answer to Question 7, market practitioners will need to be particularly aware of the proposals to significantly reduce the time periods for paying the tax.

That being said, the grace period of 31 days before penalties are imposed is useful.