HMRC - STSM031140 - Instalment Arrangements

Arrangements are sometimes made to pay for shares over a period of time by instalments, typically under an agreement between the seller, the purchaser and a custodian bank. Under the terms of the agreement:

the shares are registered in the name of the custodian bank

letters of acceptance set out the purchaser’s rights and obligations in relation to the shares (‘interim rights’)

the letters of acceptance are renounceable within a limited period (‘renunciation period’)

the shares are retained by the custodian bank until the purchaser has paid all the instalments as set out in the letters of acceptance

once all the instalments have been paid, the shares are transferred from the custodian bank to the purchaser.

Special provisions ensure that purchasers can sell their rights to the shares under such arrangements without prejudicing the interests of the seller. Purchasers can:

sell their interim rights during the renunciation period, by selling the letters of acceptance, or by transferring interim certificates by stock transfer form

transfer the shares by stock transfer form after the renunciation period (once the letters of acceptance have become registered documents).

The Stamp Duty Reserve Tax (SDRT) and Stamp Duty implications at each stage of the instalment arrangements are as follows:

the initial agreement between the vendor and the purchaser gives rise to an SDRT charge (often, in practice, borne by the vendor)

if letters of acceptance are sold during the renunciation period, this also gives rise to an SDRT charge. Renounceable letters of acceptance are rights to securities which are themselves chargeable and, as such, qualify as chargeable securities in their own right

if, after the renunciation period, shares are transferred by a stock transfer form, SDRT will only be payable if the transfer form has not been duly stamped under Stamp Duty

once the final instalment is paid and shares are transferred to the purchaser there is no further charge to SDRT.

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