HMRC - STSM067010 - Bearer Instruments-SDRT: Interaction Between Stamp Duty & Stamp Duty Reserve Tax (SDRT)

A charge to Stamp Duty Reserve Tax (SDRT) under FA86/S87 can arise ‘where a person (A) agrees with another person (B) to transfer ‘chargeable securities’. The rate of tax payable is 0.5 per cent and is calculated by reference to the consideration paid in money or money’s worth, calculated to the nearest penny.

A higher 1.5 per cent SDRT charge can apply by virtue of FA86/S93 and FA86/S96 whenever ‘chargeable securities’ in United Kingdom (UK) incorporated companies are transferred to or appropriated by a depositary receipt issuer, or transferred to a clearance service provider.

The fundamental difference between stamp duty and SDRT, however, is that stamp duty is charged on a document and/or other instrument (which includes a bearer instrument) which effectively transfers and completes a financial securities agreement earlier entered into between two or more parties, whereas SDRT is a tax on an unconditional agreement to transfer financial securities undertaken by two or more parties irrespective of whether settlement actually takes place. If an agreement is completed by an instrument/document of transfer which is duly impressed with stamp duty or a stamp duty relief/exemption applies however, then the SDRT obligation will normally be cancelled to the extent that SDRT has not already been paid.

While a bearer security issued by or on behalf of a UK company, or stock constituted by or transferable by means of a bearer instrument, is a chargeable security for SDRT purposes, the issue of a bearer security is not generally subject to the principal 0.5 per cent SDRT charge as there is no agreement to transfer.

But a 0.5 per cent principal SDRT charge (or a higher 1.5 per cent SDRT charge if the bearer security is deposited with a depositary receipt issuer or clearance service) can be imposed on issues or transfers of securities constituted by bearer instruments that are otherwise outside the scope of stamp duty.

For the meaning of ‘chargeable securities’ for SDRT purposes, see STSM031090.

For advice on stamp duty applying to the issue of a UK bearer security, see STSM062000

For advice on bearer securities that can give rise to a charge to SDRT at the rate of 0.5 per cent or 1.5 per cent, see STSM067040, STSM067050, STSM067060 and STSM067070.

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