HMRC - STSM104020 - Collectives: Calculation Of The Charge: Reduction Of Stamp Duty Reserve Tax (SDRT) Where Surrenders Exceed Issues

The provisions of paragraphs 2 & 3 of FA99/SCH19 impose a charge to Stamp Duty Reserve Tax (SDRT) at the rate of 0.5 per cent on the market value of a unit which is surrendered or otherwise transferred to the manager of a unit trust. A corresponding SDRT charge applies to the surrender or transfer of shares in an Open-Ended Investment Company (OEIC) to the Authorised Corporate Director of the OEIC by virtue of the Stamp Duty & Stamp Duty Reserve Tax (Open-Ended Investment Companies) Regulations 1987 (SI 1997/1156).

Specifically, SDRT is calculated by reference to the total value of all units (or OEIC shares) that are surrendered during a one-week ‘charging period’. A ‘charging period’ means a week covering a period of seven days beginning with a Sunday.

The provisions of Paragraph 4 of FA99/SCH19, however, provide for the SDRT payable during the charging week to be proportionately reduced where the total number of units or OEIC shares surrendered to the fund manager in the ‘relevant two-week period’ exceeds the number of units or OEIC shares of the same ‘class’ issued by the fund manager in that period, i.e. the fund is shrinking.

The ‘relevant two-week period’ in relation to a surrender, means the period from the beginning of the charging week in which the surrender occurs to the end of the following week.

The reduction is made by applying the following fraction to the amount otherwise chargeable:

where:

I is the number of units/OEIC shares issued by the manager in the relevant two-week period; and

S is the number of units/OEIC shares of the class surrendered in return for a cash proceed in that period.

Because S is greater than I, the SDRT payable will be reduced.

Surrenders and issues which are not made entirely for cash (i.e. in specie redemptions, whether or not pro rata) are excluded from this fraction by virtue of FA99/SCH19 Paragraph 4(5), along with exempt transfers between unit holders or OEIC share holders (Paragraph 6 of FA99/SCH19 ).

See STSM101020 for the meaning of a unit trust.

See STSM101050 for the meaning of an open-ended investment company.

See STSM105100 for the meaning of in specie redemptions.