HMRC - STSM104050 - Cancelled/Altered Deals

A notice under FA99/SCH19 may include units in a unit trust or shares in an Open-Ended Investment Company (OEIC) that are either cancelled altogether or are altered some time after they were first recorded in the dealing records of the fund scheme. This may include instances where an investor has exercised statutory cancellation rights, or where a deal is not completed as a result of a failed debit, or where a deal must be altered to correct an error.

In this situation, and for the purposes of Paragraph 4 of FA99/SCH19, HM Revenue & Customs is content for unit trust managers and Authorised Corporate Directors of OEICs to adopt either of the following methods of accounting for cancelled/altered deals, as follows:-

(a) cancelled and altered deals may be included as amendments to issues and surrenders - whichever is applicable - in the charging period and relevant two-week period in which they occur, provided this is done on a consistent basis;

(b) alternatively, a full re-computation can be carried out, again provided this is done on a consistent basis.

The internal systems operated by some funds employ a third method whereby a cancelled issue or surrender is reported by inputting a contra transaction to reverse the trade. For example, a cancelled issue is reversed by the input of a surrender in a later period. This method is also acceptable to HMRC.

Difficulties can arise, however, where a fund accounts for cancelled or altered deals in accordance with option a) above which may result in a negative figure for issues and/or surrenders. The application of the reducing fraction ‘I/S’ (i.e. where the number of surrendered units/OEIC shares for the relevant two-week period exceeds the total number of issues in the same period) may, as a consequence, sometimes result in a negative “SDRT due” amount. In this situation, fund managers are required to apply the following procedures:-

(i) where, by including cancelled and altered deals in the period in which they occur, a cumulative negative figure representing issues or surrenders in the charging period and relevant two-week period results, the cumulative net negative figure should be treated as zero;

(ii) excess cancelled/altered issues over the actual number of issues in the charging period are to be carried forward and offset against the number of actual issues in the next charging period;

(iii) similarly, where a cumulative positive figure of surrenders in the charging period and relevant two-week period results, but the value of surrenders in the charging period itself is negative, the negative value should be treated as nil for the purposes of the SDRT calculation;

(iv) excess cancelled/altered surrenders over the actual number of surrenders in the charging period are to be carried forward and offset against the number of actual surrenders in the next charging period;

As an alternative, a fund may, of course, still choose option (b) and carry out a full re-computation - provided this is done on a consistent basis.

Where option (a) is chosen, it will therefore be necessary for monthly notices (under Regulation 4B Stamp Duty and Stamp Duty Reserve Tax Regulations 1986 (SI 1986/1711 ) to include additional information to show the net cumulative quantity of excess issues or surrenders brought and carried forward.

Annex B and Annex C (STSM104100 and STSM104110) provide examples of notices involving net negative excess calculations. Both assume that all fund assets are non-exempt investments with no pro-rata or non-pro rata in specie redemptions or exempt third party declarations.

See STSM101020 for the meaning of a unit trust.

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

See STSM104020 for reduction of SDRT charge where surrenders exceed issues.

See STSM103070 for the meaning of a ‘relevant two-week period’.

See STSM105100 for the meaning of in specie redemptions.

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