HMRC - STSM104060 - Collectives: Calculation Of The Charge: Reduction Of Stamp Duty Reserve Tax Where Exempt Investments Are Held By A Fund

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 that 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.

Paragraph 4 FA99/SCH19 provides for a reduction of SDRT payable during a ‘charging week’ where the total number of units or OEIC shares surrendered to the fund manager in a ‘relevant two-week period’ exceeds the number of units or OEIC shares of the same ‘class’ issued by the fund manager in that period.

The amount of SDRT payable can be further reduced under Paragraph 5 FA99/SCH19 if, in the relevant two-week period, the trust or OEIC property holds both exempt and non-exempt investments.

The reduction is made by applying the following fraction to the total value of surrendered units/OEIC shares in the charging week (after any reduction resulting from surrenders exceeding issues in the relevant two-week-period):-

Where:-

‘N’ is the average value of the non-exempt investments over the relevant two-week period; and

‘E’ is the average market value of the exempt investments over that period.

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.

Cash or other funds held for day to day management are not classed as investments. So the N/(N+E) fraction does not include cash either in the numerator or the denominator. This means, for example, that a fund holding only cash and United Kingdom shares will not qualify for this relief.

If the total investments in the fund are exempt (so that there are no non-exempt investments) or there are no new issues of units/OEIC shares in the particular two-week period in point, then the fraction is zero and there will be no SDRT to account for and pay on the surrenders in the charging week concerned.

A non-exempt investment means any investment that is not an exempt investment.

See STSM101020 for the meaning of a unit trust.

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

See STSM104070 for the meaning of ‘average value’ for the N/(N+E) calculation.

See STSM105020 and STSM105040 for the meaning of an exempt investment.