HMRC - STSM105105 - In Specie Redemptions On Or After 30 March 2014

No 0.5% Stamp Duty Reserve Tax (SDRT) charge arises on an agreement to transfer investments held by a unit trust fund (or sub-fund of that unit trust) or, as extended to, an Open-Ended Investment Company (OEIC) (or sub-fund of that OEIC) to the unit or shareholder, pursuant to a surrender of units or OEIC shares to the manager of that fund or OEIC.

Where, following a surrender of units/OEIC shares, a unit or OEIC shareholder receives, in lieu of cash, and by way of distribution, a pro rata in specie share of each investment held by and within the fund that is proportionate to, or as nearly practically proportionate to, the value of the unit/OEIC shareholder’s entitlement, no SDRT charge will arise under FA86/S87 by virtue of F86/S90(1B).

‘Pro rata’ is a Latin term meaning ‘in proportion to’. Similarly, ‘in Specie’ is a Latin term meaning ‘in the actual form’. Transferring property ‘pro rata in specie’ means to transfer the ownership of that property from one person/company/entity to another person/company/entity in its current form (i.e. without the need to convert the property to cash), in proportion to the receiver’s entitlement.

In determining whether a transaction represents a pro rata in specie surrender/redemption of units/OEIC shares, in terms of practicality, this will largely be judged by reference to trading constraints beyond the control of the fund manager.

For example, it is not possible to deal in fractional shares, so rounding to the nearest share is acceptable. Similarly, there are circumstances where it is not possible to buy or transfer stocks. The stock could be suspended from trading or it could be in a firm not quoted on a market that the investor cannot buy (Illiquid stock).

It is, however, an all or nothing test in the sense that the whole value of the surrender is chargeable unless the condition is met - If any line fails, the whole transaction becomes chargeable. Where non chargeable securities are involved, these have to match by overall value and not on a line by line basis.

Non-\_Pro rata In Specie\_ redemptions

Where, following a surrender of units/OEIC shares and a distribution of investments from the fund, a unit or OEIC shareholder does not receive a pro rata in specie share of each investment held within the fund that is proportionate to, or as nearly proportionate to, the value of the unit/shareholder’s entitlement, the whole distribution is subject to a 0.5% SDRT charge under FA86/S87 (excluding any non-chargeable securities).

This is because the beneficial interests of the holder in the fund will change as a consequence of the surrender and distribution of investments from the fund.

See STSM101020 for the meaning of a unit trust.

See STSM101050 for the meaning of an OEIC.

See STSM105100 for more information on In Specie redemptions that occurred prior to 30 March 2014.