HMRC - STSM107030 - Pro Rata In Specie Contribution To An Existing Unit Trust / Open-Ended Investment Company

The creation of units in a unit trust or shares in an Open-Ended Investment Company (OEIC), following a cash contribution by an investor, is regarded as an issue for the purposes of FA99/SCH19. The number of issues is to be included by the trust/OEIC fund manager in his Stamp Duty Reserve Tax (SDRT) computations when reporting the number of units or shares surrendered during the same ‘relevant two-week period’ in a monthly notice to HM Revenue & Customs.

There are instances, however, where an investor, in lieu of cash, may transfer other forms of property including SDRT ‘chargeable securities’ (or ‘stock or marketable securities’ - stamp duty) to an existing trust or OEIC, as a subscription for the issue of units or OEIC shares.

Unit Trust

Where an investor is able to contribute property (property includes ‘chargeable securities’ or ‘stock or marketable securities’) to a unit trust in quantities that exactly match the same investments and same quantities already held as investments by the trust fund, or is able to proportionately contribute (as practicably as possible), a quantity of each property already held by the fund, such a contribution is regarded as being undertaken on a pro rata in specie basis.

‘Pro rata’ and ‘in specie’ are Latin terms meaning, respectively, ‘in proportion to’ and ‘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 same kind of property already held by the receiver.

For example, if a unit trust fund holds 100 ABC Ltd shares and 200 DEF shares and an investor transferred to the trust a further 100 ABC and 200 DEF shares, the contribution is regarded as pro rata in specie, as it matches the investments already within the trust fund. Similarly, if an investor transferred 50 ABC and 100 DEF shares to the trust, the contribution is regarded as pro rata in specie, as it proportionately matches the investments held by the fund.

In this situation, the investor is not relinquishing ownership of his property in return for a different proportionate percentage interest in each of the existing underlying investments (which includes his own contributing property) contained in the trust fund. There is therefore no transfer on sale, or an agreement to transfer, as the transaction represents, in effect, no change of beneficial ownership. Consequently, there are no SDRT (or stamp duty) implications.

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Open-Ended Investment Company (OEIC)

While there is no stamp liability on a pro rata in specie contribution of securities to a unit trust as the unit holder retains an undivided interest in the fund investments, there is no comparable stamp exemption where there is a pro rata in specie contribution to an OEIC (or equivalent OEIC corporate body). This is because, unlike a trust fund, a corporate body is considered to be the beneficial owner of property that is transferred to it.

In such situations, the investor is relinquishing ownership of his ‘chargeable securities’ in return for a proportionate percentage interest in each of the existing underlying investments (which includes his own contributing shares) held within the OEIC fund. In relinquishing ownership, the contribution of any ‘stock or marketable securities’ is regarded as being a “transfer on sale” and chargeable to stamp duty on the value of the shares issued as consideration (FA99/SCH13 and FA99/SCH19/PARA1(2)). The issue of OEIC shares as consideration for the contributed property is regarded as ‘stock’ for stamp duty charging purposes.

In the absence of a transaction being completed by a legal instrument of title and impressed with stamp duty, the contribution of ‘chargeable securities’ is regarded as an agreement to transfer between the investor and the OEIC fund manager and subject to a charge to SDRT under FA86/S87 with the issue of OEIC shares being valuable consideration in money’s worth for SDRT charging purposes.

In situations where property other than cash is received as subscription for the issue of units, a fund manager must not include the issue of units or OEIC shares in his Schedule 19 monthly SDRT calculations.

See STSM101020 for the meaning of a unit trust.

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

See STSM104080 for information of a SDRT monthly notice.

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

See STSM021040 for the meaning of ‘stock or marketable securities’.

See STSM031090 for the meaning of ‘chargeable securities’.

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