HMRC - STSM116050 - Exercise Of A Covered Warrant

Dependent on the particular circumstance, a charge to either Stamp Duty or Stamp Duty Reserve Tax (SDRT) can arise whenever a covered warrant is exercised.

Stamp Duty

Where, anytime before expiry of a covered warrant in respect of underlying securities i.e. ‘stock or marketable securities’ as defined in FA1891/S122, the warrant is exercised by the holder but the warrant can only be settled in cash, no stamp duty charge arises as there is no requirement for the completion and execution of an instrument of transfer i.e. stock transfer form.

Where upon exercise and settlement of a covered warrant, underlying securities are transferred and delivered to the warrant holder in exchange for consideration, such a transaction is regarded as a transfer on sale which may be subject to ad valorem stamp duty if an instrument of transfer is completed and executed, and the securities represent ‘stock or marketable securities’ as defined in SA1891/S122.

Stamp Duty Reserve Tax (SDRT)

Where a covered warrant in respect of underlying UK registered securities is exercised but settlement is capable only in the form of cash, no SDRT obligation arises because a cash settled warrant is not regarded as a ‘chargeable security’ within the meaning of FA86/S99.

Where, upon exercise and settlement of a covered warrant, the underlying UK registered securities i.e. stocks and shares, are transferred and delivered in exchange for consideration in the form of ‘money or money’s worth’ (FA86/S87 (1) ) the question of whether a charge to SDRT arises is dependent on the following circumstances:

Issuer’s Position

No SDRT liability arises on the exercise of an issued call (buy) covered warrant, as the issuer is a seller of the underlying share equity (subject to Regulation 2 SDRT Regulations 1986 SI 1986/1711 regarding accountability).

Conversely, a charge to SDRT may arise on the exercise of a put (sell) warrant where shares are delivered, as the issuer is the buyer of the underlying share equity from the investor (but may be eligible for intermediary relief under FA86/S88A where all conditions for relief are fulfilled).

Investor’s position

An SDRT obligation may arise on the exercise of a call warrant, where the underlying share investment that is delivered to the warrant holder in exchange for consideration represents a ‘chargeable security’.

No SDRT charge arises on the exercise of a put covered warrant, as the holder is selling securities to the issuer (subject to Regulation 2 SDRT Regulations 1986 SI 1986/1711 regarding accountability).

See STSM112070 for the meaning of a ‘Call’ and a ‘Put’.

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