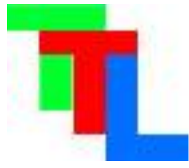

Stamp taxes

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The taxes

The term stamp taxes is now generally used to mean three different, though related, taxes and their devolved equivalents:

- stamp duty land tax (and devolved equivalents)
- stamp duty
- stamp duty reserve tax.

The names are misleading, as only stamp duty uses stamps, and that is now rare. The use of the word "stamp" simply indicates that the other taxes now collect taxes previously collected by stamp duty.

Stamp duty land tax (SDLT) is charged from 1 December 2003 on property transactions that were previously subject to stamp duty. Although it is often referred to as "stamp duty", it is a completely different tax.

SDLT is a devolved tax. That means it is replaced by:

- land and buildings transaction in Scotland from 1 April 2015, and
- land transaction tax in Wales from 1 April 2018.

SDLT charges tax at increasing rates on slices of transaction value. A distinction is made between residential and non-residential property. This applies to the two devolved versions, though the rates are different.

SDLT explained in a separate article on this website.

Stamp duty

Stamp duty was introduced in Britain in 1694, making it one of the oldest taxes still collected. It was last consolidated in Stamp Act 1891 and Stamp Duty Management Act 1891. The fact that it is governed by legislation more than 100 years old indicates that this tax has been subject to little change. A disadvantage is that amendments are spread over more than a century of Finance Acts.

Stamp duty is a tax on **documents,** not on transactions. If a transaction can be effected by not using a document, there is no need to pay stamp duty.

Stamp duty was traditionally charged at either a fixed duty or an ad valorem duty. The fixed duties have now been abolished. Ad valorem duty means that the duty relates to the value of underlying transaction.

From 13 March 2008, stamp duty is not charged on transfers for less than £1,000. From the

same date, the £5 charge for a transaction for no consideration is also abolished. From April 2012, two new Certificates were added to the standard stock transfer form to state that no duty is payable.

Stamp duty is generally charged at 0.5% rounded up to the nearest £5. Some instruments, such as bearer certificates, are taxed at 1.5%.

The duty is usually charged on the actual **consideration** rather than the value of the underlying asset. There is an exception when the transfer is to settle a debt, when the consideration is the amount of the debt. This practice differs from SDLT and stamp duty reserve tax.

The three traditional methods of stamping documents are (or were):

- to affix a Revenue stamp to the document
- to write the document on pre-stamped paper
- to have the document stamped by a stamp office.

Historically, stamp duty was charged on a wide range of documents. By 1965, duty was charged under 50 heads of documents. These included ordinary cheques until 1971. Gradually, the range of duties has reduced.

In practice, stamp duty is now charged only on stock transfer forms. In other words, it is a tax on buying shares or other securities. In 1990, it was announced that stamp duty would be abolished on share transfers when the TAURUS system was introduced. This system collapsed in 1993 and with it the abolition of stamp duty.

These are now largely dealt with under the CREST system where the duty is collected electronically. Electronic stamping was introduced from 25 May 2000.

In July 2017, the Office of Tax Simplification (OTS) found that 103,000 paper documents a year are still stamped by having a sheet of paper embossed using a dye and coloured ink. The only stamping office is now in Birmingham. Stamped documents are sent by post.

The OTS found that in one sample week, the three largest registrars of companies received 3,386 stock transfer forms of which only 50 were stamped. The OTS recommends that the physical stamping of documents is discontinued, and be replaced by an online system whereby a unique reference number is allocated to the taxpayer.

Stamp duty is seen as a **voluntary tax** in that there are no powers of compulsion as such. In reality, the reason for stamping documents are:

- an unstamped transfer instrument cannot be used to update a company's register of members, so a shareholder cannot establish him or her legal title to the shares
- paying stamp duty removes a liability to pay stamp duty reserve tax
- a person cannot rely in court on a stampable document unless the document has been stamped.

A document must be stamped within 30 days. While there are no penalties for not stamping a document at all, there are penalties for late stamping.

Where a succession of transfers are made, such as in a company reorganisation, the parties may agree to stamp just one transfer from the original transferor to the final transferee. This is sometimes known as **sub-sale relief.**

Although many debt instruments are within the scope of "stock and marketable securities", there are some which are not and are therefore excluded from the scope of stamp duty. These include:

- government stock
- debt instruments and other forms of borrowed capital for companies
- alternative finance investment bonds
- loan capital raised by certain international organisations.

Stamp duty reserve tax

Stamp duty reserve tax (SDRT) was introduced in 1986 to tax securities whose transfers are not subject to stamp duty. Examples include depositary receipts.

SDRT is designed to collect the same amount of tax as if stamp duty had been charged. The rates are therefore 0.5% for normal transactions and 1.5% for some others.

A special scheme for trustees and managers of UK unit trusts was abolished from 30 March 2014.

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