UK Stamp Tax Reform—Key Points and a Few Observations

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Introduction

The United Kingdom has long imposed stamp taxes, in most cases at a headline rate of 0.5%, on instruments that transfer stock and marketable securities (most commonly shares but also covering interests in partnerships which hold applicable securities) or agreements that transfer similar securities. These stamp taxes are Stamp Duty ("SD") and Stamp Duty Reserve Tax ("SDRT"), two parallel but interdependent regimes.

Overhaul and the Need for Reform

On 28 April 2025, the UK taxing authority, HMRC, announced, in its response to a consultation (the "Response"), that a new simplified single stamp tax on transfers of securities ("STS") will be introduced to replace SD and SDRT.

The UK tax reform of these parallel regimes can legitimately be seen as long overdue – even the most vanilla of transactions can give rise to practical issues. For example, when transferring partnership interests, complex clauses on offshore execution and retention are frequently negotiated to little benefit. An exemption for intra-group share transfers is available only if shares are materialised but not where an intra-group transfer is made through an electronic settlement system. Such practical issues often result in excessive time and effort being spent on securing the stamp tax treatment that commercial parties ordinarily expect.

Key Points

The Response sets out the following framework for future legislation:

- The new rules are expected to come into effect in 2027.

- There will be a single tax, STS, payable by the purchaser on a transfer of applicable securities.

- STS is expected to apply to securities in UK-incorporated (or UK-listed) companies and, subject to further consideration, may also be extended to companies with a UK share register. "Securities" is intended to include stock and non-government bonds with "equity-like" features, while the current "loan capital" exemption will be retained to exclude debt-like securities.

- The transfer of partnership interests and the grant of call options and warrants will generally be outside the scope of STS, subject to the application of an anti-abuse rule.

- While subject to confirmation, the general tax rate is expected to remain at 0.5% of the consideration for the transfer and the tax payable within 14 days for shares settled electronically ("on market") and 30 days for other, "off-market" sales (being the same as the current SDRT and SD timeframes, respectively). There will be additional consultation regarding a 1.5% tax that currently applies to certain transfers of UK securities overseas.

- Chargeable consideration for these purposes will be "money or money's worth" (i.e. the current SDRT test, rather than the SD consideration of, broadly, cash, debt and marketable securities). Certain exemptions will be introduced for certain consideration, e.g. obligations to pay pension benefits and life insurance policies.

- The charging point for STS will be the earlier of completion or "substantial performance".

- Exemptions for intra-group transfers (group relief), reconstruction and acquisition relief, and a "growth market" relief are expected to continue to be available, but the current £1,000 *de minimis* exemption will be abolished.

- A purchaser will be able to file an STS return, or apply for a relief, via an online portal that effectively enables the target company's share register to be updated on the same day as completion of the relevant share transfer.

Certain of these areas are addressed further below.

Partnership Interests

The exclusion of transfers of partnership interests from the scope of the new tax is a welcome development. This should save considerable time on many secondaries transactions, when it is not uncommon for there to be extensive provisions navigating the challenges of offshore execution and retention of documents, even when the risk of issues is extremely remote.

It should be noted that there will be an anti-abuse rule on the transfer of partnership interests. This is understandable since it might otherwise be relatively easy to exchange UK securities for partnership interests, transfer those partnership interests and then dissolve the partnership. However, it is to be hoped that the anti-abuse provisions will be limited to egregious scenarios and will not impact typical secondaries transactions or similar arrangements.

Territorial Scope

The proposed application to UK-incorporated entities with no reference to tax residence is also to be welcomed, although the Response notes that the territorial scope remains an area of consideration. Currently, the remaining question appears to be whether the scope of STS will be extended to companies with a UK share register or whether this creates further issues and would present a challenge in terms of defining what precisely constitutes a "UK share register". The UK government has stated it will consider "all relevant factors" in making such a determination, so this remains an area to watch.

Same-Day Stamping

The government proposes to create an online STS portal that will enable purchasers to self-assess their STS liability and file their STS return (or claim relief) and immediately receive a Unique Transaction Reference Number ("UTRN") on which a company registrar can rely in order to register the change in ownership on the target company's share register (which, under UK law, effects the transfer of legal ownership of shares). This gives rise to the possibility that a share transfer can be registered on the same day as completion.

This is a potentially significant development for those involved in the M&A or reorganisation of groups that include UK companies. There will be no more waiting for weeks (or even months) for HMRC to review and approve their stamp duty application and payment before the company registrar can update the share register. The complicated workarounds to mitigate such delays should no longer be necessary.

Uncertainties Regarding Consideration

The new rules applicable when consideration is contingent, uncertain or unascertainable represent a move to reflect the stamp duty land tax ("SDLT") regime, which operates in the United Kingdom on the transfer of UK real estate.

For contingent consideration, taking the SDLT rules as a model, it would seem that purchasers will be required to calculate STS on the basis that the contingent amount will be payable. However, an application to defer this may be available if the amount is contingent upon an event more than six months from the date of the transaction. The indications in the Response are that deferment applications will be accepted over a period of four years with an absolute maximum of 12 years before the amounts must be paid.

Where the consideration is uncertain or has not yet been ascertained, purchasers will be required to make a reasonable estimate of the final consideration and pay the resultant STS. Once the consideration is clarified, then any additional amounts must be paid.

Charging Point—The Earlier of Completion and "Substantial Performance"

In practice, the stamp tax charging point for off-market sales will generally continue to be completion, with a 30-day period from the charging point to settle the stamp tax amount (the same as under SD). Only if the benefits of the shares become exercisable by the purchaser or their nominee/intermediary before completion (for example, dividend payments or voting rights become exercisable) would the new "substantial performance" measure be likely to apply and bring forward the charging point under the new rules.

Similarly, in practice, the charging point for on-market sales will continue to be broadly the same, being the earlier of completion or when the details of the transfer have been submitted and matched within the electronic settlement system, with a 14-day period from the charging point to settle the stamp tax amount (the same as the applicable date under SDRT).

These new "substantial performance" charging points for STS largely reflect both the current SD and SDRT practices as well as, in principle, the current SDLT rules. However, the question of when the benefits of shares are exercisable by the purchaser or a third party may require some additional consideration, especially when presented with more unusual fact patterns, and it will be interesting to review the precise legislation.

Other Areas

Inevitably, there remain some areas which are unclear and details in the actual legislation will need to be reviewed. The treatment of *in specie* contributions and redemptions is left a little open in the Response, and there is no mention of how the foundational SD concept of a "transfer on sale" will be reflected in the new rules. Other areas such as mergers are stated to be subject to clarification in the legislation and guidance.

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