



GOVERNMENT SERVICES

Administrative Burdens – HMRC Measurement Project

Report by Tax Area

Part 23: Stamp Duty
Reserve Tax

20 March 2006

Restricted – Commercial

TAX



HMRC

**Administrative Burdens -
HMRC Measurement Project
Report by Tax Area
Part 23: Stamp Duty Reserve Tax**

This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than HMRC) for any purpose or in any context. Any party other than HMRC that obtains access to this Report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than HMRC.

KPMG LLP
20 March 2006

Contents

1	How to use this report	2
1.1	Volume 1	2
1.2	Volume 2	2
1.3	Table conventions	3
2	Executive summary	4
3	Introduction	5
3.1	Background	5
3.2	Overview of regulation affecting the private sector	5
3.3	Approach and methodology	5
4	Administrative burden on business	6
4.1	Overview	6
4.2	Administrative burden by type of Information Obligation	6
4.3	Administrative burden by origin of Information Obligation	7
4.4	Administrative burden by business size	8
4.5	Administrative burden by most burdensome Information Obligations	9
4.6	Administrative burden by administrative activity and forms	9
4.7	Administrative burden by Information Obligations to third parties	11
5	Other findings	12



Tables

Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area.....	5
Table 2: Administrative burden - overview	6
Table 3: Burden by Information Obligation type.....	7
Table 4: Burden by business size.....	8
Table 5: Top 4 obligations by total administrative burden	9
Table 6: Summary by burden by standard activity type.....	10

1 How to use this report

This report should be read in conjunction with the main report on the Administrative Burdens - HMRC Measurement project. Both reports seek to give an overview of the model that has been built to measure the tax administrative burden for UK business. The reports give examples of some early analysis of areas of high burden, outline how the model was built and the size and format of the resulting data framework.

Like the UK tax system the model is large and complex. Thus the reports can only give a flavour of the model's full potential. The detailed analysis looking at specific pieces of tax regulation, the setting of the baseline and targets, how to link the administrative burden to the full range of impact assessments and wider policy initiatives will be done by HMRC as it takes the model forward, using the data framework.

For ease of reference, the main report is hereafter referred to as Volume 1 and this report, by tax area, is hereafter referred to as Volume 2.

1.1 Volume 1

Volume 1 is a good starting point for an overview of the model and the dynamics of the tax administration burden for UK business. The main body of Volume 1 provides a brief description of the background to the model, how the model was built, some examples of early analysis at a total level and a summary of the overall themes arising from business interviews. This report uses, from time to time, technical terms set out in the Standard Cost Model. The Glossary to Volume 1 seeks to give a practical explanation of each term.

There are a series of Annexes to Volume 1:

- **Annex A** is a detailed description of the methodology and how the model was applied in practice
- **Annex B** provides an example of the guide used to interview businesses
- **Annex C** provides a summary of the overall themes arising from interviews with businesses. The focus is on issues that do not relate to one specific tax but were raised in the context of interviews on many different subjects
- **Annex D** addresses demarcation issues: what regulation is included in the model and what is not

1.2 Volume 2

Volume 2 should be read in conjunction with Volume 1 for details of key terms used in the model and early analysis.

Volume 2 is in 28 Parts, one for each of the tax areas, described in further detail below. It gives an overview of the administrative burden, early analysis and business feedback for

each tax area. Volume 2 can only give a flavour of the model's potential. It is already clear that the early analysis may prompt further questions. The further detailed analysis looking at specific pieces of tax regulation will be done by HMRC as it takes the model forward, using the data framework.

The tax areas are:

Part 1	Aggregates Levy	Part 15	Inheritance Tax
Part 2	Air Passenger Duty	Part 16	Insurance Premium Tax
Part 3	Capital Allowances	Part 17	Intrastat
Part 4	Capital Gains Tax	Part 18	Landfill Tax
Part 5	Climate Change Levy	Part 19	Pensions
Part 6	Construction Industry Scheme	Part 20	Petroleum Revenue Tax
Part 7	Corporation Tax	Part 21	Stamp Duty
Part 8	Customs	Part 22	Stamp Duty Land Tax
Part 9	Double Tax Treaties	Part 23	Stamp Duty Reserve Tax
Part 10	EC Sales List	Part 24	Tax Credits
Part 11	Employer Taxes	Part 25	Tax Management Provisions
Part 12	Excise Duties	Part 26	Tonnage Tax
Part 13	Gaming Duties	Part 27	Value Added Tax
Part 14	Income Tax for Businesses	Part 28	Withholding Tax

1.3 **Table conventions**

The early analysis in the reports is based on tables of monetary amounts and percentages derived from the data framework. These tables look at the administrative burden in a number of ways, at different levels of detail and for different areas of tax (some large, some small), to give examples of how the model can be used. This means that different measurement units are used for the monetary amounts and percentages, depending on which aspect of the model is being looked at. For example, some tables show monetary amounts to the nearest £ million and percentages in whole numbers. Other tables use different conventions. The overarching aim is that a monetary amount or percentage is shown and that the tables are as helpful as possible.

The underlying data held in the data framework is extremely detailed and has been rounded up to prepare the tables. Due to complex roundings not all the tables, as presented, will add up to the total shown on the table.

A dash '-' in the tables indicates a genuine zero value. By contrast, the figure '0' indicates a negligible number in the context of that table.

2 Executive summary

The administrative burden of Stamp Duty Reserve Tax ('SDRT') is £1m, 0.02% of the total burden placed on business.

The burden is made up as follows:

	£000	%
Internal costs	208	22.30%
Acquisition costs	11	1.13%
External costs	716	76.57%
Total burden	935	100.00%

In this tax area, 77% of the total burden relates to external costs. This is because the completion of the SDRT returns is often outsourced to the solicitor who is dealing with the transaction in question. The work is outsourced because the requirements of the return can be quite complex and the work is not part of the core business process.

SDRT is charged on transactions in shares effected without a paper document and so outside the scope of Stamp Duty. If a document is subsequently prepared and stamped (so that Stamp Duty is paid), any SDRT paid is refunded.

It affects all sizes of businesses that undertake transactions in shares.

The key obligation, accounting for 78% of the total burden is an application for relief from SDRT.

3 Introduction

3.1 Background

See Volume 1 Section 3.1.

3.2 Overview of regulation affecting the private sector

3.2.1 Description of the scope and objectives of tax area

Stamp Duty Reserve Tax ('SDRT') was introduced in 1986. The purpose was to charge transactions in shares that were effected without a paper document and so were outside the scope of Stamp Duty. With the introduction of CREST, the paperless share transfer system, in 1996, SDRT became increasingly important.

Where shares are transferred, SDRT is charged at 0.5% of the consideration and is payable by the transferee.

If a transfer document is prepared, then Stamp Duty will be payable; in this situation, the SDRT already paid is repaid.

3.2.2 Summary statistics relating to the regulations included within the scope of the measurement exercise

Table 1: Number of Regulations, HMRC Forms, Information Obligations and Data Requirements by Tax Area

Tax Area	Number of sources of regulations	Number of forms	Number of Information Obligations	Number of Data Requirements
Stamp Duty Reserve Tax	3		18	48
HMRC Total		279	2,692	6,614

3.3 Approach and methodology

3.3.1 Overall methodology

See Volume 1 Section 3.2 and Annex A.

3.3.2 Major methodological issues specific to tax area

None.

4 Administrative burden on business

4.1 Overview

4.1.1 Summary of the administrative burden results

Table 2: Administrative burden - overview

Tax Area	Total administrative burden	
	£m	Share of HMRC total
Stamp Duty Reserve Tax	1	0%
HMRC Total	5,100	100%

The burden relating to SDRT is £1m, or 0.02% of the overall burden on business.

4.2 Administrative burden by type of Information Obligation

Table 3 shows the number of IOs analysed by type of IO and the administrative burden for each type of IO. As set out in Volume 1 Section 3.2.2, the model uses 13 IO types, each of which represent a particular process. They are thus very helpful in seeing the overall dynamics in the tax system.

Table 3 uses the terminology in the SCM; please refer to Volume 1 – Glossary for a practical explanation of each term.

Table 3: Burden by Information Obligation type

Information Obligation type	Admin burden £	Share of total admin burden for tax area	Number of IOs	Share of total IOs for tax area
Applications for subsidies, grants, allowances or credits for ...	854,795	91.46%	7	38.89%
Returns and reports	77,621	8.30%	3	16.67%
Applications for permission for or exemption from	1,178	0.13%	1	5.56%
Cooperating with audits/inspections of ...	561	0.06%	2	11.11%
Applications for authorisation	397	0.04%	3	16.67%
Framing complaints and appeals	61	0.01%	1	5.56%
Notification of activities/registration	40	0.00%	1	5.56%
Providing statutory information for third parties	-	-	-	-
Statutory labelling for third parties	-	-	-	-
Keeping commercial emergency plans and programmes updated, etc ...	-	-	-	-
Carrying out inspections of ...	-	-	-	-
Entry in a register	-	-	-	-
Application for Guidance	-	-	-	-
Total	934,652	100.00%	18	100.00%

HMRC total	5,100,094,092		2,692	
Share of HMRC total	0.02%		0.67%	

As described above, SDRT is a tax payable on transactions in shares which do not have paper documentation. The notification to HMRC and payment of SDRT is categorised as returns and reports. However, the predominant IO type within SDRT is applications for subsidies, grants, allowances or credits, with returns and reports being a significantly lower cost to businesses. The reason for this is that there are approximately five times more businesses applying for relief from SDRT than are actually incurring a charge to, and paying, the tax.

In this Tax Area, there does appear to be a fairly close correlation between the number of IOs and the burden.

4.3 Administrative burden by origin of Information Obligation

All SDRT IOs are domestic in origin.

4.4 **Administrative burden by business size**

Table 4: Burden by business size

Table 4 is designed to show the administrative burden broken down by business size. It has been omitted here because it is not helpful bearing in mind the size of the burden in this tax area.

However, we have established that the administrative burden of this tax area for each business is clearly dependent upon the number of transactions that attract SDRT per year. The size of the business itself does not impact upon the burden. The high burden falling on the nano businesses is therefore simply a factor of the larger population of nano businesses, and not because the burden per transaction is higher.

4.5 Administrative burden by most burdensome Information Obligations

Table 5: Top 4 obligations by total administrative burden

Information Obligation	Total administrative burden	Internal cost	External cost	Acquisition cost
	£	£	£	£
Application for SDRT relief when stamp duty already paid on an 'own shares agreement'	729,157	110,242	611,727	7,188
Application for credit on overpayment of SDRT	125,074	21,921	101,955	1,198
Notice and payment of SDRT payable on a surrender of units in unit trust schemes or shares in open ended investment companies	42,687	41,888	-	799
Notification and payment of SDRT	34,924	33,566	-	1,358
Total	931,841	207,617	713,682	10,542
Share of total for tax area	99.70%	99.60%	99.73%	99.71%
Total for tax area	934,652	208,444	715,636	10,573

As noted above, the most burdensome IO within this tax area, which accounts for 78% of the total SDRT burden, is the application for relief from SDRT (referred to as 'own shares agreement' where Company A transfers shares in Company B to Company B). Relief is applied for in these circumstances because Stamp Duty has already been paid. This is based on HMRC information that 18,000 such applications are made each year. This compares with a population of only 3,000 for the next obligation; thus, the average unit cost for each is very similar.

4.6 Administrative burden by administrative activity and forms

Table 6 analyses the administrative burden into the three component price parts (internal costs, external costs and acquisition costs). It also analyses internal costs across the 16 administrative activities set out in the SCM. Table 6 uses the description of administrative activities in the SCM. A practical interpretation of those activities is given in Volume 1 – Glossary.

The first part of the table analyses internal costs. The second part of the table analyses the total burden into the three component parts of price.

Table 6: Summary by burden by standard activity type

Activity	Form-filing related		Non form-filing related		Total	
	£	%	£	%	£	%
Familiarisation with the Information Obligation	-	-	6	0.00%	6	0.00%
Information retrieval	-	-	75,752	36.34%	75,752	36.34%
Assessment	-	-	10,871	5.22%	10,871	5.22%
Calculation	-	-	6,111	2.93%	6,111	2.93%
Presentation of figures	-	-	11,970	5.74%	11,970	5.74%
Checking	-	-	34,731	16.66%	34,731	16.66%
Correction	-	-	-	-	-	-
Description	-	-	14,438	6.93%	14,438	6.93%
Settlement/payment	-	-	26,601	12.76%	26,601	12.76%
Internal meetings	-	-	-	-	-	-
External meetings	-	-	-	-	-	-
Inspection by public authorities	-	-	375	0.18%	375	0.18%
Correction resulting from inspection by public authorities	-	-	-	-	-	-
Training	-	-	-	-	-	-
Copying, distribution, filing, etc.	-	-	17,670	8.48%	17,670	8.48%
Reporting/submitting information	-	-	9,917	4.76%	9,917	4.76%
Internal total	-	-	208,444	100.00%	208,444	100.00%

		Share of total burden %		Share of total burden %		Share of total burden %
Internal total	-	-	208,444	22.30%	208,444	22.30%
Acquisition costs	-	-	10,573	1.13%	10,573	1.13%
External costs	-	-	715,636	76.57%	715,636	76.57%
Total burden	-	-	934,652	100.00%	934,652	100.00%

The key administrative activity carried out by businesses when complying with SDRT is retrieval of the information for presentation to HMRC when applying for SDRT relief. Information retrieval is 36% of the total SDRT burden. As much of the work within this tax area will be outsourced, checking the application prepared by the business's advisor prior to submission to HMRC is a significant activity. Settlement/payment is also a significant activity; this relates to the obligations to notify and pay SDRT.



4.7 Administrative burden by Information Obligations to third parties

There are no SDRT obligations to third parties.



5 Other findings

None.

