



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Bridget Phillipson MP
House of Commons
London
SW1A 0AA

17 June 2020

Dear Bridget

FINANCE BILL: CLAUSE 77

Thank you for your question at the Finance Bill Public Bill Committee on 16 June. You raised the impact of Clause 77 in circumstances where multiple shareholders of an unlisted company each own less than 25 per cent of share capital. You suggested that in such instances, a double charge to Stamp Duty could still arise in principle on certain demergers where there is no avoidance motivation.

Anti-avoidance legislation was introduced in 2016 in order to prevent the misuse of Stamp Duty share for share relief on a takeover. This anti-avoidance legislation is an important safeguard designed to prevent abuse of the relief and protect significant amounts of revenue.

The Government is aware that in some cases this rule may result in legitimate commercial arrangements not having access to the relief. In turn, it is possible that a double charge to Stamp Duty can arise during a capital reduction partition demerger. The Government has listened to concerns expressed and is making changes to address this issue, while ensuring that this anti-avoidance legislation remains effective.

Clause 77 therefore amends the share for share anti-avoidance rules to ensure that relief from Stamp Duty will apply, in most cases, to the insertion of a new holding company as a preliminary step in a capital reduction partition demerger. This means that relief from Stamp Duty will be available on most of these transactions, preventing a double charge from arising, provided the person who acquires control of the company after the demerger is a person who has held at least 25 per cent of the company shares for at least 3 years.

The Government considered whether this percentage holding could be reduced further; for example, to prevent a double-charge arising on a capital reduction partition demerger in a situation where, prior to the demerger, the company is owned equally by five or more persons. However, after careful consideration the Government concluded that reducing the threshold would not be possible without undermining the existing anti-avoidance protection on company reorganisations, so risking substantial revenue loss.

The Government therefore considers 25 per cent to be the right threshold to ensure that a double charge is prevented for most capital reduction partition demergers.

I am copying this letter to the Chairs and other members of the Public Bill Committee and am depositing a copy of this letter in the Library of the House.

A handwritten signature in black ink, appearing to read "Jesse". The signature is written in a cursive, flowing style.

RT HON JESSE NORMAN MP