

MARKET BULLETIN

REF: Y4285

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| Title | Consolidated Taxation Advices – 2006 Year of Account |
| Purpose | To set out the timetable and procedures for the submission of the tax computations |
| Type | Scheduled |
| From | Christine Allcott, Manager, Market Services Direct Tel No: 01634 392433 E-mail: Christine.allcott@lloyds.com |
| Date | 1 June 2009 |
| Deadline | 1 July 2009 |
| Related links | Appendix 1 – Tax Computation Standard Template |

Please copy this Bulletin and its attachments to those within your organisation that are responsible for reviewing and completing the UK tax computations.

1.0 Background

In order to provide members with a UK tax advice for their 2006 account results, certain information is required by Market Services (MS) regarding the tax computations of the individual syndicates. The purpose of this bulletin is to inform managing agents of the information that is required by MS for the 2006 account including run-off syndicates at 31 December 2008.

2.0 Tax Computation Data

- 2.1 The form attached as Appendix 1 should be completed for each syndicate and should be returned to MS within 7 working days of submitting the tax computation to HMRC Large Business Service Financial Sector (London) and in any event by no later than close of business 1 July 2009.
- 2.2 Please note that managing agents may have previously used their own version of the tax computation forms. MS has now streamlined these forms to enable the automated upload of this data into our systems. **It is therefore imperative that all managing agents use the forms as set out in Appendix 1.** Unfortunately, MS will

not be able to accept any non-standard forms and managing agents will be asked to re-submit if the standard forms have not been used.

- 2.3 The forms will also be made available for download from the Market Returns web site on the L-Net within 10 days of the date of this bulletin. The site will also enable agents to upload their completed forms. Should you have any questions regarding the Market Returns website, please contact Market Returns helpdesk on 0207 327 5021.

When submitting your returns to HMRC, please ensure that you also complete the section on the LL250 authorising HMRC to discuss the contents of your computation with Lloyd's.

- 2.4 HMRC have also asked that we remind managing agents that the following documents also need to be submitted to them along with the syndicate tax return:

- LL250
- Syndicate Annual Accounts for 2008
- Syndicate Underwriting Accounts for the 2006 Year of Account

If there is no requirement for the Syndicate Underwriting Accounts to be audited, the documents to be sent to HMRC are extracts from the QMA (QMA100, QMA 102, QMA 201, QMA 205 and the Auditors Report)

- 2.5 Should HMRC enquire into the syndicate return please notify MS, contact details are shown in 7.2 of this bulletin.
- 2.6 To produce fully reconciled consolidated taxation advices, MS will utilise the syndicates' results data obtained through the centralised distribution systems.

3.0 Exchange Rate Adjustments Required to the Tax Computations

The exchange rate adjustments described below must be included within the tax computations and managing agents should provide full details of the calculations to both LBS Financial Sector (London) and to MS. The adjustments need to be shown on the face of the computation where indicated.

Following the adoption of annual accounting in accordance with UK GAAP from 1 January 2005, the managing agent should determine the most appropriate accounting policies to be used for year end reporting, including the determination of applicable accounting policies for exchange rates. The exchange rate adjustments included in the tax computation should therefore be calculated using the relevant rates of exchange used by the syndicate for accounting purposes.

3.1 Dollar Profits

A currency exchange adjustment is needed to recognise any exchange gain or loss in relation to US dollar profits between the closing rate of exchange used for the syndicate accounts and the rate of exchange applying in April 2009 when the US dollars were released to MS. For syndicates releasing dollars on 9 April the rate of exchange is 1.47

Members will be notified in the CTA2 of the rate of exchange at the date the dollars were released to MS, so that they can make any further necessary adjustment if required in their own tax return.

The following example illustrates how an exchange gain might be calculated on a US dollar surplus of \$1,000, based on a Lloyd's year end rate of 1.44 and a rate of 1.47 applying on 9 April 2009 when the US dollars were released to MS:

| | | |
|---------------------------------------|---|----------------|
| \$1,000 converted to sterling at 1.47 | = | £680.27 |
| \$1,000 converted to sterling at 1.44 | = | <u>£694.44</u> |
| Exchange loss | = | £ 14.17 |

The assessable profit is therefore £680.27 i.e. the result of £694.44 shown in the accounts plus an exchange loss of £14.17. This adjustment needs to be made in respect of any dollars being released from the syndicate to the members, regardless of the net result of the syndicate.

An exchange rate adjustment is only required where a surplus was paid to MS. Please do not calculate an exchange gain/loss on syndicate cash calls that were paid to the syndicate as these adjustments will be calculated separately by MS and reported on members' CTA2 advices.

3.2 Excess US dollar cash calls

For accounting purposes, syndicates retranslate any surplus US dollar cash calls from the date of receipt to the date of closure of the year of account (or the 36 month point if earlier) and include this adjustment in the syndicate accounts. No adjustment is made in the syndicate tax return in respect of this amount.

However, it is necessary to include in the syndicate tax computation an adjustment to take account of any movement in the exchange rate from the date of the closure of the year of account to the date that the surplus is released to MS as described at 3.1.

3.3 Early Profit Releases

An adjustment must also be made to the syndicate's profit/loss in respect of any early release of US dollar profits that took place during 2006, 2007 or 2008. The syndicate accounts will include the gain or loss on exchange arising on early profit releases from the date of release to the date the year of account closes. The effect of the adjustment to the syndicate tax return shown below is to remove the gain or loss described above from the syndicate result.

For example, if a syndicate made an early release of \$1,000 in respect of 2006 year of account profits in June 2007, when the exchange rate was 1.97, the syndicate will have included a gain of £186.83 in its accounts. The syndicate tax return should therefore include a loss of £186.83 calculated as follows.

| | | |
|---------------------------------------|---|----------------|
| \$1,000 converted to sterling at 1.97 | = | £507.61 |
| \$1,000 converted to sterling at 1.44 | = | <u>£694.44</u> |
| Exchange loss | = | £186.83 |

A list of average exchange rates for the month is provided at the end of this bulletin to assist with the calculation of these adjustments.

4.0 Foreign Taxes

Foreign taxes (including withholding taxes on investment income) that are potentially creditable in the members' tax returns should not be included as expenses in determining the syndicate's Final Case 1 result. The instructions given below are intended as a guide only.

The total result for the period (ADEG code RX01) will include foreign taxes which have been treated as syndicate expenses in the syndicate accounts. Any such taxes which are either foreign taxes on profits or withholding taxes on investment income will need to be added back for the purposes of computing the syndicates Case 1 result. Further guidance is given below.

Lloyd's provides the syndicates with a schedule of foreign taxes on profits which have been computed by Lloyd's and charged as syndicate expenses. Please contact Roger Ramage of Lloyd's Tax Department (roger.ramage@lloyds.com) if you require a duplicate copy. It is expected that the taxes shown on this schedule will be included as expenses in the syndicate result (ADEG code RX01) and will therefore need to be added back for the purposes of computing the syndicate's Case 1 result. This schedule includes income tax paid in Australia, Belgium, Dominica, France, French Polynesia, Hong Kong, Israel, Malta, New Zealand, St Lucia, St Vincent and the Grenadines. These taxes should also be included as a memorandum item on the line "Foreign tax on profits"

Tax liabilities which have been or will be recovered from members (e.g. US Federal Income Tax, Canadian Income Tax, Singapore Income Tax and Japanese Income Tax), would not normally be included as expenses in the syndicate accounts and therefore we would not normally expect to see any adjustment in the syndicate tax computation for these taxes or for them to be included as a memorandum item.

Premium taxes, stamp duties, parafiscal charges and levies paid to any of the above countries (or any other country) do not require adjustment, since these are deductible expenses for the purposes of the syndicate's Case 1 result.

5.0 Quota Share Information

5.1 Where managing agents are aware of members entering into personal quota share arrangements, they are asked to contact Cheryl Masson on Lloyd's extension 2620, to discuss how any relevant information can be provided.

6.0 Apportionment Schedules for Managing Agents

6.1 Notwithstanding that the legislative requirement to produce apportionment schedules remains, HMRC does not now require these as a matter of routine. However, HMRC does reserve the right to request them in exceptional circumstances. Where a managing agent receives such a request please forward it to MS within seven days of receipt. MS will arrange for an apportionment schedule to be provided.

7.0 Timetable

7.1 The timetable for submission of data to MS is shown below.

| | | |
|---|--|---|
| A | Syndicate tax computation information (Appendix 1) | Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 1 July 2009 |
| B | Copy of LL250 | Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 1 July 2009 |
| C | Supporting Accounts | Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 1 July 2009 |

| | | |
|---|--|---|
| D | Exceptional requests for apportionment schedules | Within 7 days of receipt of the request from HMRC |
|---|--|---|

- 7.2 All information in connection with the above should be addressed for the attention of Cheryl Masson, Tax Operations, Lloyd's Market Services Fidentia House, Walter Burke Way, Chatham Maritime, Chatham, Kent, ME4 4RN or by email to cheryl.masson@lloyds.com.

Alternatively you can contact Cheryl on Lloyd's extension 2620, or Lorraine Neal on Lloyd's extension 2376 should you have any related queries that you wish to discuss.

8.0 Adherence to Deadlines

- 8.1 The consolidated taxation advice produced by MS provides members with the majority of their taxation information relating to their underwriting activities at Lloyd's. In view of this it is important that the timetable in 8.1 is adhered to.

This Bulletin is being sent to all managing agents, recognised auditors and other preparers of UK tax computations. In addition it is being sent to members' agents for information only.

Christine Allcott
 Manager,
 Market Services

Table of Exchange Rates to be used for Calculation of Adjustment as Detailed in Paragraph 3.3

| | | |
|-----------|------|--------|
| January | 2006 | 1.766 |
| February | 2006 | 1.7481 |
| March | 2006 | 1.7444 |
| April | 2006 | 1.7692 |
| May | 2006 | 1.8692 |
| June | 2006 | 1.8432 |
| July | 2006 | 1.8449 |
| August | 2006 | 1.8932 |
| September | 2006 | 1.8859 |
| October | 2006 | 1.8766 |
| November | 2006 | 1.9125 |
| December | 2006 | 1.963 |

| | | |
|-----------|------|--------|
| January | 2007 | 1.9589 |
| February | 2007 | 1.9586 |
| March | 2007 | 1.9478 |
| April | 2007 | 1.9878 |
| May | 2007 | 1.9834 |
| June | 2007 | 1.9874 |
| July | 2007 | 2.0345 |
| August | 2007 | 2.011 |
| September | 2007 | 2.0197 |
| October | 2007 | 2.0453 |
| November | 2007 | 2.071 |
| December | 2007 | 2.015 |

| | | |
|-----------|------|--------|
| January | 2008 | 1.9693 |
| February | 2008 | 1.9641 |
| March | 2008 | 2.0020 |
| April | 2008 | 1.9808 |
| May | 2008 | 1.9653 |
| June | 2008 | 1.9664 |
| July | 2008 | 1.9885 |
| August | 2008 | 1.8859 |
| September | 2008 | 1.7981 |
| October | 2008 | 1.6893 |
| November | 2008 | 1.5310 |
| December | 2008 | 1.4838 |

Lloyd's MSU Syndicate UK Tax Computation
at 31 December 2008

Appendix 1

Syndicate Number: Open/Closed as at 31/12/2008:
Year of Account:

Prepared by:
Telephone Number:
Email address:

| | £ |
|---|---|
| 1 Total Result for period (ADEG code RX01) | 0 |
| 2 Exchange rate adjustments gain/(loss) - <i>refer to Market Bulletin</i> | 0 |
| 3 Add: Disallowed syndicate expenses | 0 |
| 4 Disallowed Personal expenses | 0 |
| Certain Foreign income taxes - <i>refer to Market Bulletin</i> | 0 |
| Foreign withholding taxes (incl. Canada) | 0 |
| Adjustment to 2005 Foreign income taxes (if applicable) | 0 |
| 5 Final Case I result | 0 |
| MEMORANDUM ITEMS | |
| 6 Foreign tax on profits | 0 |
| 7 Foreign withholding tax | 0 |
| 8 Total | 0 |
| Income exempt to non-residents | |
| 9 Non UK domiciled | 0 |

