

**FROM:** Head of Taxation, Taxation Department  
**LOCATION:** TAX/58/323  
**EXTENSION:** 5228  
**DATE:** 13 June 2000  
**REFERENCE:** TAX/MCM/hrc/Y2320  
**SUBJECT:** EXCHANGE RATE ADJUSTMENTS  
**ATTACHMENTS:**  
**ACTION POINTS:** **Personal accountants to individual members and members who deal with their own tax affairs to note**  
**DEADLINE:** **Effective immediately**

## **1. Introduction**

1.1 The purpose of this bulletin is to update tax advisors and individual members who deal with their own tax affairs on the tax treatment of certain exchange adjustments.

## **2. Background**

2.1 A number of exchange adjustments are needed at member level for the US dollar syndicate results. These adjustments take into account differences between the closing rate at which the syndicate accounts are drawn up and the rate applying when the US dollars are applied on the member's behalf or converted to another currency.

2.2 There is an exchange gain or loss calculated at syndicate level representing the difference between the rate used for the purpose of the accounts and the rate applying when the results are taken into the Lloyd's Members Services Unit (MSU) distribution system. This gain or loss is reported as part of the trading result on forms CTA1.

2.3 MSU calculates further exchange adjustments in two stages –

- (i) there is an exchange gain or loss if US dollars are used to meet syndicate dollar losses; and
- (ii) there is a further exchange gain or loss representing the difference between the rate applying at the beginning of the distribution process and the rate at which US dollars are applied on the member's behalf or converted into another currency.

- 2.4 The gains or losses described in paragraph 2.3 (i) are Case I trading receipts or expenses for tax purposes in the hands of individual members. They are included in the syndicate Case I results reported on forms CTA2
- 2.5 However, the tax treatment of the gains or losses described in paragraph 2.3 (ii) has been the subject of a disagreement between Lloyd's and the Inland Revenue. The Inland Revenue has taken the view that they should be treated as capital gains or losses rather than as part of the trading result. For previous years, (1997 and 1998) they have been reported on forms CTA2 as "exchange rate adjustments capital/Case I" with a note referring to the dispute.

### **3. Forms CTA2 for 1999**

- 3.1 The gains or losses that fall within paragraph 2.3 (ii) above are generally small and do not have a material effect on the tax payable for most members. In view of this and of the complexity and possible other implications of the issues, Lloyd's has decided not to pursue the matter further centrally.
- 3.2 The 1999 CTA2s will therefore report these gains or losses as a separate capital gains or losses item on page 2 of the advice. A note to the form will record that they are reported as capital gains and losses for pragmatic reasons.
- 3.3 Members who have already returned exchange adjustments described in paragraph 2.3 (ii) within the Case I result for previous years may wish to consider amending their tax returns. However, Lloyd's decision to report these items as capital gains and losses does not prejudice the right of any individual member to continue to challenge the Inland Revenue's interpretation of the position and to argue instead that they are trading items.
- 3.4 Please note that if US dollars are transferred into the Personal Reserve Fund or released to members in US dollars, no taxable exchange gain or loss occurs at that time. However, if those dollars are later exchanged into another currency, members will themselves be responsible for calculating and reporting any exchange gains or losses that occur then. These will be capital gains or losses.

### **4. Readership and contact details**

- 4.1 This bulletin is being sent to all underwriting agents, recognised auditors, personal accountants to individual members and members who deal with their own tax affairs
- 4.2 If you have any queries, please contact Maureen McLeod of Lloyd's Taxation Department on Lloyd's extension 6860.

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