Market Bulletin

LLOYD'S

FROM:	Head of Taxation	EXTN:	5228
DATE:	29 March 2005	REF:	Y3530
SUBJECT:	**Corporate Members: Tax Treatment of Syndicate Capacity**		
SUBJECT AREA(S):	Tax Treatment of Syndicate Capacity		
ATTACHMENTS:	None		

ACTION POINTS:	**For Information**
DEADLINE(S):	None

This bulletin provides an update to market bulletin Y3449 of 9 December 2004 entitled "Corporate Members: Tax Treatment of Syndicate Capacity and IAS". It reports the Inland Revenue's view of the nature of syndicate capacity for the corporation tax rules, and also outlines the implications for elections for a 4% fixed rate of writing down allowance.

The Inland Revenue has told us that it considers capacity on a syndicate to fall within the definition of "fungible assets" in paragraph 107 of Schedule 29 FA 2002. This means that the capacity on each syndicate is treated as a single asset, and that (by virtue of paragraph 126) capacity that was acquired before 1 April 2002 will also be treated as a separate asset from any capacity on the same syndicate that is acquired on or after that date. Any disposals, or part disposals, diminish the pre-1 April 2002 asset in priority to the later asset.

The 9 December bulletin drew attention to the possibility of making elections under paragraph 10 to write down the cost of capacity for tax purposes at a fixed rate of 4% of cost. Once made, such elections are irrevocable and apply to any future additions to the same asset. The Inland Revenue has told us that, as it considers "pre-April 2002" and "post-March 2002" holdings of capacity on a syndicate to be separate assets, it will apply the paragraph 10 time limit for making elections separately in respect of each of them. In each case this time limit is two years from the end of the accounting period in which the company first acquired the asset, subject to rules about transfers between grouped companies. This will therefore be the date of first acquisition of the capacity or the date of the first addition that was made on or after 1 April 2002, as the case may be.

Corporate members may also like to note that two amendments to the tax rules that were announced in the Pre-Budget Report and reported in the 9 December bulletin have been included in the Finance Bill that was published on 24 March. These concern limiting the possible tax adjustment on first time adoption of IAS by a corporate member; and ensuring that a corporate member can continue to follow the UK GAAP treatment of syndicate capacity for tax purposes where it accounts under UK GAAP but the consolidated accounts are under IAS. The proposed amendments are contained in paragraph 116F and paragraph 38(3) of Schedule 7 to the Finance Bill.

This bulletin is being sent to underwriting agents, recognised auditors and direct corporate members. If you have any queries please contact:

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