

MARKET BULLETIN

REF: Y4401

Title	Consolidated Taxation Advices – 2007 Year of Account
Purpose	To set out the timetable and procedures for the submission of the syndicate tax computations
Type	Scheduled
From	Christine Allcott, Manager, Market Services Direct Tel No: 01634 392433 E-mail: Christine.allcott@lloyds.com
Date	1 June 2010
Deadline	1 July 2010
Related links	Appendix 1 – Syndicate Tax Computation Standard Template

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

1.0 Background

In order to provide members with a UK tax advice for their 2007 year of account results syndicates are required to submit certain information to Market Services (MS). The purpose of this bulletin is to inform managing agents of the information that is required by MS for the 2007 underwriting year of account including run-off syndicates at 31 December 2009.

2.0 Instructions

Please note that in order for MS to be able to produce CTA1s for members, syndicates need to follow the instructions below when completing their tax returns. This is compulsory for spread syndicates. If an aligned syndicate wishes to adopt a different treatment for any item, they must notify Lloyd's and HMRC that they are not following the instructions. When MS process the submitted returns, if any deviations from the treatment set out in this bulletin are identified Lloyd's will seek confirmation from HMRC that they have been notified of this fact.

3.0 Tax Computation Data

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 2010.

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.

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.

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 2009
- Syndicate Underwriting Accounts for the 2007 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 Auditor's Report).

Should HMRC enquire into the syndicate return please notify MS, contact details are shown in 8.2 of this bulletin.

To produce fully reconciled consolidated taxation advices, MS will utilise the syndicates' results data obtained through the centralised distribution systems.

4.0 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.

When preparing these calculations reference should be made to Market Bulletin Y4334 published by Lloyd's Tax Department on 20th November 2009, setting out HMRC's view of the tax treatment of various foreign exchange adjustments at member level.

4.1 Distribution of US Dollar Profits

A currency exchange adjustment is needed to recognise any exchange gain or loss in relation to the distribution of US dollar profits, reflecting the foreign exchange profit or loss which arises from the date the year of account closes to the date on which US dollar profits are released to Market Services. For syndicates releasing dollars on 9 April 2010 the rate of exchange is 1.5367.

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 1.61 and a rate of 1.5367 applying on 9 April 2010 when the US dollars were released to MS:

\$1,000 converted to sterling at 1.5367	=	£650.74
\$1,000 converted to sterling at 1.61	=	<u>£621.11</u>
Exchange Gain	=	£ 29.63

The assessable profit is therefore £650.74 i.e. the result of £621.11 shown in the accounts plus an exchange gain of £29.63. 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.

4.2 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 should be 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 4.1.

4.3 Early US Dollar Profit Releases

An adjustment must also be made in the syndicate tax computation in respect of any early release of US dollar profits that took place during 2007, 2008 or 2009. 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 exchange gain or loss described above from the syndicate result.

For example, if a syndicate made an early release of \$1,000 in respect of 2007 year of account profits in June 2008, when the exchange rate was 1.9664, the syndicate will have included a gain of £112.57 in its accounts. This is calculated as follows:

\$1,000 converted to sterling at 1.9664	=	£508.54
\$1,000 converted to sterling at 1.61	=	<u>£621.11</u>
Exchange gain	=	£112.57

An adjustment should be made in the syndicate tax return to reverse out this gain, i.e. the syndicate should make an adjustment to include a corresponding loss of £112.57.

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

5.0 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 trading result. The instructions given below are intended as a guide only and assume that these taxes are included as expenses in the syndicate accounts.

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 syndicate's trading result.

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 e-mail Gemma Tutt, Lloyds-Market-Services-Tax-Operations@Lloyds.com if you require a

duplicate copy. It is expected that the taxes shown on this schedule will have been 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 trading result for tax purposes. 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.

The basis for reporting these foreign taxes to syndicates has changed this year. Previously, tax paid during a calendar year was allocated to the corresponding underwriting year of account e.g. tax paid in calendar year 2006 was allocated to the 2006 underwriting year of account. Going forward, foreign tax will be allocated to the underwriting year of account to which the tax has been charged.

The schedules that will be provided by Lloyd's this year will show the foreign taxes charged to the 2007 underwriting year of account, together with any tax paid in 2007 and 2008 which would not otherwise get reported due to the change to the new reporting basis - i.e. taxes relating to the 2005 and 2006 years of account which were paid during 2007 and 2008 calendar years. HMRC have agreed that these should also be adjusted for in the syndicate tax computation for the 2007 Year of Account.

The new basis of reporting should more closely match how syndicates record the taxes in their books and therefore make it easier for syndicates to reconcile the reported figures to their own records in future, albeit that this may be difficult for the 2007 year of account due to the transitional adjustment referred to above.

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.

Premium taxes, stamp duties, para fiscal 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 trading result.

6.0 Dividend Income

Following changes to the tax treatment of dividends from 1 July 2009, syndicates will need to provide additional analysis of their dividend income as part of their syndicate tax return.

For corporate members, most UK and foreign dividends are now exempt from tax. This applies to dividends received on or after 1 July 2009. The tax treatment for individual members remains the same, i.e. both UK and foreign dividends are taxable.

No adjustment needs to be made to the computation of the syndicate's trading result in respect of this change, as it has been agreed with HMRC that MS will make this adjustment on members' CTA1s. Therefore no adjustment is needed to the syndicate's trading result in respect of dividend income.

However, in order for MS to make the necessary adjustments on corporate members' CTA1s, syndicates will need to provide the amount of exempt UK and foreign dividends received on or after 1 July 2009 and allocated to the 2007 year of account. This should be included as a memorandum item on line 10 of the syndicate tax computation.

Syndicates will need to check whether their dividends meet the criteria for exemption under Finance Act 2009 Schedule 14 and managing agents are advised to seek independent professional advice if they are in any doubt about this. Any dividends which are not exempt should not be included in the amount reported on line 10.

7.0 Technical reserves and appropriate amount regulations

New legislation (Finance Act 2007 Schedule 11) has been introduced in respect of the taxation of general insurers' reserves, which requires insurers and Lloyd's syndicates to confirm that their reserves do not exceed the "appropriate amount". The first period to which the new rules apply to Lloyd's syndicates is the 2007 year of account.

Syndicates will need to provide the necessary written confirmation to HMRC along with their syndicate tax return but it is not necessary to provide this information to Lloyd's. Syndicates may choose to provide additional supporting evidence to HMRC but there is no requirement for this to be submitted to Lloyd's.

8.0 Timetable

8.1 The following documents must be submitted to MS 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 2010:

- A Syndicate tax computation information (Appendix 1)
- B Copy of LL250
- C Supporting Accounts
- D Detailed foreign exchange calculations

8.2 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.

9.0 Adherence to Deadlines

- 9.1 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.

Christine Allcott
Manager,
Market Services

Table of Exchange Rates to be used for Calculation of Adjustment as Detailed in Paragraph 4.0

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

January	2009	1.4472
February	2009	1.4413
March	2009	1.4172
April	2009	1.4715
May	2009	1.5442
June	2009	1.6370
July	2009	1.6375
August	2009	1.6533
September	2009	1.6318
October	2009	1.6191
November	2009	1.6592
December	2009	1.6219

Lloyd's Syndicate UK Tax Computation
at 31 December 2009

Appendix 1

Syndicate Number: Open/Closed as at 31/12/2009

Year of Account:

Prepared by:

Telephone Number:

Email address:

	£	£
1 Total Result for period (ADEG code RX01)		0
2 Exchange rate adjustments gain/(loss) - refer to Market Bulletin section 4		0
3 Transfer pricing adjustments		0
4 Add: Disallowed syndicate expenses		
Entertaining	0	
Non Trade Subscriptions	0	
Donations	0	
Capital Expenditure	0	
Depreciation	0	
Non-specific bad debt provisions	0	
Other (please specify)	0	
Total disallowed syndicate expenses		0
5 Add: Disallowed Personal expenses		
Lloyd's charities trust	0	
Members' Agent Fee (ADEG RB09)	0	
Other (please specify)	0	
Total disallowed personal expenses		0
6 Add Certain Foreign income taxes - refer to Market Bulletin section 5		0
7 Add Foreign withholding taxes (excl. Canada)		0
8 Add Canadian withholding taxes		0
9 Final trading result		0
MEMORANDUM ITEMS		
10 Dividends received after 1 July 2009 - refer to Market Bulletin section 6		0
11 Income exempt to non-residents		0