

**FROM:** Head of Taxation, Taxation Department  
**LOCATION:** TAX/58/323  
**EXTENSION:** 5228  
**DATE:** 16 January 2001  
**REFERENCE:** TAX/HS/hrc/Y2465  
**SUBJECT:** VAT INCURRED ON CLAIMS FROM SERVICES SUPPLIED  
FROM WITHIN THE U.K.  
**ATTACHMENTS:**  
**ACTION POINTS:** **Syndicates to notify Customs of VAT on claims recovered for  
the Quarters ended 31 March 1998 to 31 December 2000.**  
**DEADLINE:** **IMMEDIATE**

## **1. Purpose**

- 1.1 This market bulletin addresses two issues which affect the VAT amounts on paid claims (sometimes known as tabulation figures) reported to syndicates. The first part of the bulletin (section 2) notifies all syndicates and managing agents of overclaims of VAT incurred on claims from services supplied from within the UK. The second part (section 3) advises syndicates and managing agents of VAT charged by the Corporation on commissions on recoveries that have been under recovered.
- 1.2 Sections 4 and 5 outline the action that syndicates need to take to remedy these errors with Customs and Excise.

## **2. VAT on claims on services supplied from within the UK**

- 2.1 UK VAT that is incurred on a claim is only recoverable if it arises on a supply that has been made to an underwriter *and* the policyholder belongs outside the EU. The recoverable UK VAT amount is entered in Box 20 of the Lloyd's Claim and Collection Form (LCCF) which is then processed by LPSO Limited (LPSO) and LCO Marine Limited or LCO Non-Marine and Aviation Limited (collectively referred to as LCO). Based on the information on the LCCF, syndicates and managing agents are advised daily, via the underwriter signing message (USM), of the VAT on claims amounts that are fully recoverable. This procedure was outlined in the Market bulletin issued by the Lloyd's Taxation Department on 22 March 1996 (ref. Y189).
- 2.2 Following an audit, Customs and Excise have found that a significant number of items on which syndicates have claimed input tax related to EU insurance. The VAT incurred in relation to these items is therefore wholly irrecoverable, and over-claims have been made.

## **3. VAT on commissions on recoveries**

- 3.1 VAT is also charged to managing agents and syndicates on commissions on recoveries generated by the LCO. For this VAT to be fully recoverable the commission on recoveries must relate only to non-EU insurance. This VAT amount is included as part of the VAT amounts on claims advised by LPSO and LCO to syndicates and managing agents and is shown as negative amounts.
- 3.2 Following an internal review, the Corporation has discovered that VAT amounts charged on commissions on recoveries have been reported as negative rather than as positive amounts. This has had the effect of depressing rather than increasing the total VAT on claims advised, so leading to an under-recovery of VAT by some syndicates and managing agents. The cause of the under-recovery of VAT has now been addressed by LCO through procedural change which will ensure that future VAT on commissions on recoveries is reported correctly to the market.

## **4. Remedial action**

- 4.1 Customs and Excise have the power to revisit VAT returns for the past 3 years. All managing agents and syndicates are therefore required to advise their local VAT Office of the total amount of VAT on claims declared in VAT returns for the 12 quarters ended from 31 March 1998 to 31 December 2000 immediately. Failure to do so by 19 February 2001 will lead to visits from Customs and Excise officials who may take further action as necessary.

- 4.2 On the basis of their findings, Customs will be recovering overclaims of input VAT by applying a gross disallowance rate of 46.58% to VAT on claims recovered in respect of VAT returns filed for the 12 quarters ended from 31 March 1998 to 30 December 2000. Please note that this disallowance percentage will be applied if *only* positive amounts of VAT on claims have been recovered, i.e. the negative amounts identified as VAT on commissions on recoveries, discussed in paragraph 3.2, have not depressed the VAT on claims amounts.
- 4.3 If managing agents and syndicates can demonstrate that they have declared the net VAT on claims amounts, i.e. VAT amounts on claims (positive VAT on claims amounts reported by LPSO) and VAT amounts on commissions on recoveries (negative VAT on claims amounts) then Customs will apply a net disallowance rate of 29.16% to the VAT on claims declared for the 12 quarters ended 31 March 1998 to 31 December 2000.
- 4.4 Both the disallowance figures noted above have been checked by Lloyd's.

## **5. Future returns**

- 5.1 With immediate effect, managing agents and syndicates must ensure that only VAT on claims relating to non EU insurance is detailed in Box 20 of the LCCF.
- 5.2 For a period until Customs are satisfied that LCCFs are being completed accurately and that proper procedures are in place for the reporting of VAT on commissions on recoveries, adjustments will still have to be made to the figures for VAT advised by LPSO. Following an agreement with Customs, Lloyd's Taxation Department will advise all managing agents and syndicates of future gross and net disallowance rates by the end of the first week following the VAT quarter end. These rates should be applied to VAT on claims amounts advised by LPSO for that quarter to determine the amount of VAT that is fully recoverable and which is to be included in the VAT return.

## **6. Readership and contact details**

- 6.1 This bulletin is being sent to all managing agents and syndicates. If you have any queries, please contact Harinder Sandhu of Lloyd's Taxation Department on Lloyd's extension 5396.

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