

FROM: Head of Taxation, Taxation Department
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SUBJECT: INCOME TAX RELIEF FOR MEMBERS
UNDERWRITING BEFORE 1972
ACTION POINTS: **Personal accountants and individual members who are dealing with their own tax affairs to note**
DEADLINE: **Effective immediately**

1. Introduction

- 1.1 This bulletin advises members and their advisors of the special relief available on cessation of underwriting for members who were underwriting before 1972. It also outlines how to claim the relief, and the help that the Inland Revenue will give members in obtaining the information they need.

2. Background

- 2.1 Members who were underwriting before the 1972 year of account are entitled to a special relief when they cease underwriting as individuals. This is in order to compensate for the effects of the change in basis of Lloyd's taxation in 1972-73, when members received two assessments.
- 2.2 This relief, which was originally in Regulation 21 of Statutory Instrument 1974/896, was modified for members who were still underwriting in 1992. The rules are now contained in Regulation 13 of the Lloyd's Underwriters (Tax) Regulations 1995 (Statutory Instrument 1995/351).
- 2.3 Over 2000 members of Lloyd's who wrote on the 1971 year of account were still underwriting in 1994. This bulletin is relevant to all those members.

3. Calculation of relief under Regulation 13 and tax return entries

3.1 Relief under Regulation 13 SI 1995/351 must be claimed to be given. There are two parts to the relief:

- a time apportionment of the profits of the member's final year of underwriting; and
- a deduction from the penultimate year's profits of the amount of the profits for the 1972 underwriting year (excluding syndicate investment income).

Time apportionment of final year

3.2 The first stage is to identify the final year of assessment in which the profits of the last underwriting account for which new business is written fall to be assessed. For example, a member who resigned in 1996 will actively participate in the 1996 underwriting account but will not write business on the 1997 account. The last "pure" account is 1996 and the results are assessable in 1999-2000 because they are declared in 1999. 1999-2000 is therefore the final year for this purpose.

3.3 The relief takes effect by bringing into assessment only those syndicate profits of the final year that arise in the period 6 April to 31 December. The calculation time apportions the profits, so that 270/365 of the relevant profits is assessable. The profits and losses of the last "pure" account include those of syndicates that did not close at the normal time as well as those that did. Because "pure" account profits are the basis on which relief is calculated, it is quite possible for relief to be due even when there is an overall syndicate loss.

3.4 The apportionment does not affect the profits and losses of earlier unclosed years of account declared in the final year (e.g. if the 1995 year is declared in 1999, that would not be apportioned), nor does it affect non-syndicate income and expenses. If an overall loss arises on apportionable syndicate results in respect of the final year of assessment, then no Reg 13 relief is due and the full loss may be included in the Case I computation, without apportionment.

3.5 To isolate the elements of the final year of account that require apportionment, the relevant tax-adjusted results should be extracted from Part II of the Lloyd's UK Taxation Advice CTA 1 and totalled. If the result is a profit, it should be time apportioned and the result aggregated with the non-apportionable syndicate profits and losses of any earlier running-off accounts. The calculation should be shown in the additional notes space of the Lloyd's self assessment pages or on a separate schedule and the resulting profit or loss should be entered in box 3L58A or 3L.63.

3.6 If relief for syndicate foreign tax is claimed by way of credit, the tax is effectively part of the profits for Reg 13 purposes and is apportionable in the same way as the syndicate profit. The foreign tax of the "pure" syndicates is time apportioned (this can be done in the additional notes space), and the result is then added to the foreign tax of the other syndicates and the total transferred to box 3L.58B of the Lloyd's pages. The full amount of syndicate foreign tax can still be claimed for tax credit relief purposes and the total of syndicate foreign tax reported on the CTA 1 should be entered in box 3L.76, rather than carrying down the figure from box 3L.58B (see the example in Annex 2). If, however, relief for foreign taxes is claimed by deduction it should not be added to the relevant syndicate profit for Regulation 13 purposes.

- 3.7 Where a member has a carried forward trading loss under s385 ICTA 1988 at the beginning of the year, relief for that loss is given after deducting any relief that is due by time apportioning final year profits under Regulation 13.

Deduction of 1972 result from penultimate year

- 3.8 The second stage of the relief is to establish whether a deduction is available against the profits of the "penultimate year". The "penultimate year" is the year before the "final year", as defined in paragraph 3.2 above. The relief which is deductible from the penultimate year's profit and is the lesser of the profits, if any, of the 1972 underwriting year and the relevant profits of the penultimate year itself. For this purpose that means the syndicate profits of the "pure" account falling to be assessed in the penultimate year.
- 3.9 If there was an underwriting loss in 1972, no relief is due in the penultimate year.
- 3.10 A deduction for the relief should be claimed as an underwriting expense in box 3L.71 of the Lloyd's pages with an appropriate comment in the additional notes space.
- 3.11 If members no longer have either the Inland Revenue form LL9 for the 1972 account or the 1972-73 (new basis) underwriting assessment, Leeds (Underwriters Unit) will supply details of the 1972 profits on request. Where, exceptionally, their records have been destroyed, they will offer relief based on an averaging of the results of fellow 1972 syndicate members or on a grossing up of the Special Reserve Fund transfer based on the actual profits. Members will have the benefit of the higher figure.

4. Time limits

- 4.1 A claim to relief under Regulation 13 may be made within five years after 31 January next following the year of assessment to which it relates. So, for example, a claim in respect of 1998-99 must be made by 31 January 2005; and a claim in respect of 1999-2000 must be made by 31 January 2006.

5. Readership and contact details

- 5.1 The content of this bulletin has been agreed with the Inland Revenue. It is being sent to all members' agents, recognised auditors, personal accountants and individual members who were underwriting before 1972 and who deal with their own tax affairs.
- 5.2 Examples are contained in the Annexes. If you have any questions, please contact Roger Ramage on Lloyd's extension 6852.

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REGULATION 13 RELIEF - EXAMPLE 1 (Basic Example)

I.1 Member A commenced underwriting in 1969, and resigned on 1 July 1996. The 1996 Account is the last year of account for which new business is accepted, and the 1996 result falls to be assessed in 1999-2000. 1999-2000 is therefore the “final year” for Reg 13 purposes, and 1998-99 is the “penultimate year”.

I.2 Relevant details are:

1972 year of account profit:	£ 6,000
1996 year of account “pure syndicate profits”	£35,000
1995 year of account “pure syndicate profits”	£40,000

Assume there are no profits other than pure syndicate profits, so the assessable profits before Reg 13 relief are:

“Final year”	1999-2000	£35,000	(based on 1996 account).
“Penultimate year”	1998-99	£40,000	(based on 1995 account)

I.3 *Final Year relief for 1999-2000 (Reg 13(2)(a))*

Apportion 1996 pure syndicate profits so profits for the period from 1 January to 5 April are not taxed. Relief due is $95/365 \times £35,000 = £9,110$.

Assessable profits for 1999-2000 therefore become $(£35,000 - £9,110) = \underline{£25,890}$

I.4 *Penultimate Year relief for 1998-1999 (Reg 13(2)(b))*

Relief is the lesser of:	Account 1972 taxable profits -	£6,000
and	1998-99 relevant profits -	£40,000

Relief of £6,000 is therefore deducted from 1998-99 taxable profits as follows:

Penultimate year profits	£40,000
less Reg 13 relief	<u>£ 6,000</u>
Net taxable profits	<u>£34,000</u>

REGULATION 13 RELIEF - EXAMPLE 2 (Complex example)

- II.1 Member B commenced underwriting in 1968 and resigned on 1 July 1997. The 1997 account is the last year of account for which new business is accepted, and the 1997 result falls to be assessed in 2000-01. 2000-01 is therefore the “final year” for Reg 13 purposes, and 1999-2000 is the “penultimate year”.
- II.2 Some of Member B’s 1993 and 1997 syndicates continue into run-off until they finally close at 31 December 2001. His member’s deposit is released in February 2003.
- II.3 *Final year profits (2000-01) and Reg 13(2)(a) relief*

Member B's Lloyd's profits, relief under Regulation 13(2)(a) and tax liability for 2000-01 are computed as follows:

<u>Lloyd's profits (pre-relief):</u>	£	£
1997 syndicate profit (per CTA1)	5000	
Less earlier year run-off results (per CTA1)	<u>(600)</u>	4400
Syndicate foreign tax (per CTA1)-97 A/C	400	
Syndicate foreign tax (per CTA1)-run-off	<u>40</u>	440
<u>Add non-syndicate income</u>		<u>4000</u>
		8840
<u>Deduct non-syndicate expenses</u>		<u>(1500)</u>
Net profit		<u><u>7340</u></u>
<u>Profits eligible for Regulation 13(2)(a) relief:</u>		
Profit for the 1997 Account		5000
Syndicate foreign tax relating to 97 Account		<u>400</u>
		<u>5400</u>
Relief due - $\frac{96 \times 5400}{366}$	=	<u><u>(1417)</u></u>
<u>Taxable profits and tax payable:</u>		
Net profit as above		7340
<u>Deduct Regulation 13(2)(a) relief</u>		<u>(1417)</u>
Taxable profit		<u><u>5923</u></u>
Tax due at 40% (say)		2369
<u>Deduct tax credit relief</u>		<u>(440)</u>
Tax payable		<u><u>1929</u></u>

ANNEX II/cont**II.4 Penultimate year's profits (1999-2000) and Reg 13(2)(b) relief**

Member B was assessed for 1972-73 under the "new basis" on 1972 underwriting profits of £8,000. His Lloyd's profits, relief under Regulation 13(2)(b) and tax liability for 1999-2000 are computed as follows:

<u>Lloyd's profits (pre-relief):</u>	£	£
1996 syndicate profit (per CTA1)	10000	
Earlier year run-off results (per CTA1)	<u>(200)</u>	9800
Syndicate foreign tax (per CTA1)-96 A/C	800	
Syndicate foreign tax (per CTA1)-run-off	<u>10</u>	810
<u>Add</u> non-syndicate income		<u>3000</u>
		13610
<u>Deduct</u> non-syndicate expenses		<u>(2000)</u>
Net profit		<u>11610</u>
<u>Profits eligible for Regulation 13(2)(b) relief:</u>		<u>10000</u>
Relief is the lesser of:		
Account 1972 taxable profits	8000	
and 1999-2000 relevant profits	10000	
<u>Taxable profits and tax payable:</u>		
Net profit as above		11610
<u>Deduct</u> Regulation 13(2)(b) relief		<u>(8000)</u>
		<u>3610</u>
Tax due @ 40% (say)		1444
Deduct tax credit relief		<u>(810)</u>
Tax payable		<u>634</u>