

FROM: Head of Taxation
LOCATION: TAX/86/441
EXTENSION: 5228
DATE: 4 February 2002
REFERENCE: TAX/DHC/Y2713
SUBJECT: **TAX RULES ON GENERAL INSURANCE RESERVES:
DISCOUNT RATE FOR 1998 YOA LIABILITIES**
ATTACHMENTS: None
ACTION POINTS: **For information**

Lloyd's members who write 4% or more of a syndicate's stamp have to comply with the new UK tax rules on general insurance reserves. These rules impose an annual hindsight review of previous years' tax deductions together with a form of discounting. Details are in market bulletin Y2611 of 20 September 2001.

To carry out the tax calculations, liabilities are assigned a discount rate according to the year of account in which the member first took them on. The rate is based on yields from 5-year UK gilts less a 2.3% risk adjustment. A member may either use the sterling rate for all liabilities or else opt to use related rates for liabilities denominated in other Lloyd's prescribed currencies (i.e. US and Canadian dollars).

The sterling rate for liabilities that were first assumed in the 1997 or earlier years of account was 2.79%. The Inland Revenue has now informed us that the discount rate for liabilities first taken on in the 1998 year of account will be 2.742%.

This bulletin is being sent to all underwriting agents, auditors and direct corporate members. If you have any queries, or if you are experiencing practical difficulties with the legislation please contact me on 020 7327 5228 or Richard Pester on 020 7327 6727.

David Clissitt
Head of Taxation