Market Bulletin

LLOYD'S

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FROM:	Manager, Tax Operations, Members Services Unit
LOCATION:	CH/L3
EXTENSION:	2433
DATE:	14 November 2002
REFERENCE:	MSU/CAA/Y2913
SUBJECT:	2001 CANADIAN INCOME TAX RETURNS
SUBJECT AREA(S):	Syndicate Information Statements
ATTACHMENTS:	Business Instructions
ACTION POINTS:	**Submission of Returns**
DEADLINE:	6 December 2002

The Syndicate Information Statements (SIS) which form the basis of non-Canadian resident Names' Canadian Income Tax Returns should be returned to this office by 6 December 2002.

Instructions for completing the returns can be found in Appendix 1. Your attention is drawn to the following. The instructions have been amended to accommodate the new F.I.L codes, and a table is included in Appendix 2 showing the new codes that are classed as taxable, those codes which should be reported in Column B and those codes which need to be pro-rated. When completing the SIS the change in the codes has enabled identification of Canadian business written in US dollars and which should included at a rate of 1.59 US$ to 1 Canadian $.

The instructions set out in paragraph 3.5.7 of Appendix 1 must be used for calculating profit commission as some of the methods previously used are no longer acceptable to Revenue Canada.

The supporting schedules, such as expenses and closing reinsurance, can also be submitted electronically. However, there is no standard format or software for these schedules and Agents should make their returns on diskette, giving details of the format and the software used. Paper returns are still acceptable.

This bulletin has been sent to all Managing Agents.

Any queries relating to this bulletin should be directed to Annette Stone on extension 2376 or myself on extension 2433.

Christine Allcott
Manager
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Appendix 1

CANADIAN FEDERAL INCOME TAX 1999 UNDERWRITING ACCOUNT

Explanatory notes and instructions for the completion of Canadian Syndicate Information Statements

1. GENERAL

Canadian taxable business is the underwriting profit or loss on binding authorities and limited binding authorities held by Canadian coverholders. The relevant FIL Codes are within the table in Appendix 2 which indicates which codes represent taxable business and those codes which represent non-taxable Canadian business.

In this connection a binding authority is defined as follows:

"Binding authorities, including those given for reinsurance, are those binding authorities where the Canadian coverholder is authorised to accept risks on behalf of those Underwriters at Lloyd's subscribing to the facility without the prior approval of Underwriters".

A limited binder is defined as "an agreement between Underwriters and a coverholder under which the coverholder is authorised to issue documents evidencing that risks have been accepted on behalf of underwriting members only after they have been accepted by the leading Underwriter as provided on the slip".

A return should be completed for every syndicate with Canadian dollar business for the 1999 Account, even where all such business is non-taxable.

A separate return must be submitted for syndicates that are in run-off during calendar year 2001, reflecting the movement during the year.

All amounts should be shown in Canadian dollars; the rate of exchange to be used is the Lloyd's audit rate at 31 December 2001 i.e. $2.32 = £1.00.

The completed forms should be returned to MSU, Tax Operations via the Extranet by 6 December 2002.

2. EFFECTIVELY CONNECTED PERCENTAGE

This percentage is the ratio which the Canadian taxable premium income bears to the total premium income in respect of the Canadian business written by the syndicate (i.e. Line 1, Column A Divided by Line 1, (Columns A+B) x 100). No variations to this calculation should be made.

If a return is being made for a year that is running-off, the effectively connected percentage used on the return at 36 months should be used.

3. UNDERWRITING INCOME

3.1 Canadian Dollar Taxable (Column A)

See appendix 2 for the FIL Codes of items that must be reported in column A.

3.2 Canadian Dollar Non-taxable (Column B)

See appendix 2 for items that should be included in the figures in Column B.

This represents Canadian business not subject to Canadian income tax rather than all business not subject to Canadian tax.

N.B: Any Canadian dollar business which does not bear an identifiable taxable or non-taxable code should normally be pro-rated between taxable and non-taxable on the basis of business with identifiable codes.

3.3 Syndicate Reinsurances and Recoveries Coded "JL"

Syndicate reinsurances and recoveries bearing a "JL" or new FIL codes VJ(CDE2), VK(CDE3) and VL(CDE4) should be pro-rated between taxable and non-taxable business (see paras 3.5.3(b) and 3.5.4(b) below.

Total Worldwide (Column C)

The figures in Column C represent total world-wide business in all currencies converted to Canadian dollars at Lloyd's audit rate of exchange. **It is not the sum of Columns A and B as on the equivalent US return.**

In arriving at the underwriting profit/loss figure (Line 9) the following items should be included in respect of the 1999 Underwriting Account (and all previous years reinsured therein) or notional 1999 account for a running-off syndicate.

3.5.1. Premiums Written (Line 1)

Premiums should be returned net of commission and brokerage. In calculating these figures, all additional premiums must be included and return premiums should be deducted in full.

3.5.2. Closing Reinsurance Assumed (Line 2)

The Reinsurance premium received by the 1999 account from a previous closed year should be included, normally the 1998 account. The amounts shown in Columns A and B should equal the closing reinsurance ceded figures of the previous year of account shown in the 2001 Tax Year SIS. The amount shown in Column C should represent the equivalent worldwide figure but reworked at 31 December 2001 conversion rates.

For years of account which remained open at 31 December 2001, the closing reserve shown on the 2001 SIS should be reported.

3.5.3 Syndicate Reinsurance Recoveries (Line 3)

(a) Facultative Reinsurance

The coding of the original insurance should be followed, as with reinsurance premiums.

(b) **Whole Account Excess of Loss, Stop Loss, Quota Share etc**.

The general principle applying is that where a deduction for the reinsurance premium has been taken for Canadian tax purposes, an appropriate proportion of any recovery under the policy should be included in computing the Canadian taxable profit.

Recoveries on whole account stop loss and excess of loss reinsurance should be split in the proportion that Canadian taxable premium income bears to the whole account premium income. Where the reinsurance recovery is received in respect of specific sections of the account the recovery should be split in the proportion that the Canadian taxable premium income of the original policies protected bears the total premium income of these original policies. If the syndicate uses a more accurate basis then these figures should be used (e.g. by analysing the coding of the claims contributing to the recovery and then splitting the recovery in the proportion that the Canadian taxable claims bear to the total claim). Either basis is acceptable provided that it is used consistently.

3.5.4. Syndicate Reinsurance Ceded (Line 4)

(a) Facultative Reinsurance

The coding of the original insurance should be followed for reinsurance premiums.

(b) Whole Account Excess of Loss, Stop Loss, Quota Share etc.

Premiums on whole account stop loss and excess of loss reinsurances should be split in the proportion that Canadian taxable premium income bears to the whole account premium income. Where the reinsurance protects specific sections of the account the premiums should be split in the proportion that the Canadian taxable premium income of the original policies protected bears to the total premium income of those original policies protected.

3.5.5. Closing Reinsurance Ceded (Line 5)

The closing reinsurance premium paid by the 1999 Account should be reported; or if the account did not close, the closing reserve.

The amount of closing reinsurance to be allocated to Canadian taxable business should be calculated on the basis of the taxable outstanding claims, i.e. the claims with a FIL code classed as taxable in appendix 2. It is expected that all closing R/I will be allocated on an outstanding claims basis. However, if a syndicate is not able to do so and an alternative method is used, a detailed explanation of the method used should be submitted.

The calculation of the IBNR element of the closing reinsurance attributable to taxable Canadian business should also be based on outstanding claims where possible. Syndicates should provide an explanation of their method of calculating taxable RITC whichever basis they use.

3.5.6. <u>Losses Paid (Line 6)</u>

All claims (less salvages) including settlement costs, fees, etc. debited to the 1999 Account up to and including 31 December 2001 should be reported. **N.B.** Claims with no FIL code must be reported as non-taxable..

For years of account in run-off during 2001, only additional claims paid during 2001 should be reported.

3.5.7. <u>Profit Commission (Line 7)</u>

A pro-rata share of profit commission may be included, and should be allocated in the same proportion that Canadian taxable business income before profit commission bears to the total on the account as a whole: that is, Column A Line 12 (before profit commission) as a percentage of Column C Line 12 (before profit commission).

However, the following limitations and variations apply:-

(a) If there is a Canadian taxable business loss, i.e., Column A Line 12 (before profit commission) is negative, no profit commission should be allocated to Canadian taxable business.

(b) The amount of profit commission allocated to Canadian taxable business must not create a taxable loss, i.e. it must not exceed Column A Line 12 (before profit commission).

(c) The amount of profit commission allocated to Canadian taxable business must not exceed the total worldwide profit commission.

(d) If the Canadian result before profit commission is greater that the worldwide taxable result, including where this is a loss, the Canadian taxable profit commission should reflect the proportion of Canadian dollar taxable business income in relation to profitable areas of the account as a whole.

(e) If profit commission is calculated by currency rather than on the account as a whole, the amount of Canadian dollar profit commission allocated to Canadian taxable business should be in the same proportion that Canadian dollar taxable business income before profit commission bears to total Canadian dollar income before profit commission.

(f) If there is a profit commission refund, this should be allocated to Canadian taxable business on the same basis that the profit commission was originally allocated.

An analysis of the calculations should be attached in all cases.

3.5.8. Expenses and Other Deductions (Line 8)

Expenses to be included in Column A, are a proportion of the expenses of the Canadian dollar account as a whole which should be split in the same ratio as Canadian taxable premium income, bears to the total Canadian business premium income. In addition agency salaries, commissions (excluding profit commission) and other expenses (excluding US dollar expenses) should be included and these should be split in the proportion that Canadian taxable premium income bears to the premium income on the account as a whole.

3.5.9. Underwriting Profit or Loss (Line 9)

This should be the sum of Lines 1-3 minus the sum of Lines 4-8. It will not be possible to submit the return if this check fails.

4. INVESTMENT INCOME/CAPITAL GAINS

4.1 Canadian Dollar Taxable (Column A)

The figures shown in Column A represent the effectively connected (EC) percentage of income received through the LCTF, and which has been allocated to 1999 account, or earlier run-off account where appropriate. The EC percentage calculated in 2 should be used and no adjustments should be made for variations in the underlying business.

4.2 Canadian Dollar Non-taxable (Column B)

The figures in Column B represent the balance of income received through the LCTF, which has been allocated to 1999 account or earlier.

4.3 Total Worldwide (Column C)

The figures in Column C represent total worldwide investment income and capital gains in all currencies converted at Lloyd’s audit rate of exchange.

4.4 Investment Income (Line 10)

All interest and dividends treated as investment income for UK tax purposes should be reported.

4.5 Capital Gain/Loss (Line 11)

Capital gains/losses realised and unrealised on the UK basis should be reported.

5. TOTAL INCOME (Line 12)

This should be the sum of Lines 9 to 11 and is used for verification purposes only. It will not be possible to submit the return if this check fails.

Appendix 2

Canadian $ Taxable Codes (Column A)				**Canadian $ Non-Taxable Codes (Column B)**		
Old Codes[2]	**2 Digit**	**4 digit**		**Old Codes[2]**	**2 Digit**	**4 digit**
JC	CW	CDB1		JA	VM	CDA1
JK	VA	CDB2		JB	VO	CDA2
JE	ML	CDC1		JD	VQ	CDA3
JM	VB	CDC2		JJ	CU	CDA4
	MZ	CDD1		JS	VR	CDH2
	VC	CDD2		JN	VS	CDH3
	VN	CDF1		JT	VT	CDH4
	VD	CDF2		JF	VU	CDJ2
	VP	CDG1		JG	VV	CDJ3
	VE	CDG2		OA[1]	VW	CDJ4
	CS	CDN1			CL	CDK2
	VF	CDN2			CM	CDK3
	CV	CDP1			CN	CDK4
	VG	CDP2			VX	CDL1
	MI	CDT1			CO	CDM1
	VH	CDT2			CP	CDM2
	MY	CDY1			CQ	CDM3
	VI	CDY2			CR	CDM4
					CX	CDQ2
					CY	CDQ3
					CZ	CDQ4
					MC	CDR2
					MD	CDR3
					ME	CDR4
					MF	CDS2
					MG	CDS3
					MH	CDS4
					MM	CDU2
					MN	CDU3
					MP	CDU4
					MQ	CDV1
					MR	CDW1

Codes to be apportioned between taxable and non-taxable (see appendix 1. 3)

Old Code	**2 Digit**	**4 Digit**
JL	VJ	CDE2
	VK	CDE3
	VL	CDE4

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[1] NB use of the two-character code was wider than the four character codes listed, and includes currencies other than Canadian Dollars. Any use of this two-character code for the purposes of this return must be restricted to Canadian Dollars.

2 The old tax codes do not necessarily bear any direct relationship to the new codes shown.