

FROM: Head of Taxation and Managing Director, MSU
LOCATION: CH/L3
EXTENSION: 2433
DATE: 31 March 2003
REFERENCE: Y3021
SUBJECT: US TAX REPORTING: ARRANGEMENTS FOR SYNDICATES HOLDING FUNDS
SUBJECT AREA(S): Reporting obligations and documentation
ATTACHMENTS:
ACTION POINTS: **Provide details of custodians**
DEADLINE: 30 April 2003

1. Introduction

- 1.1 Under Lloyd's Closing Agreements with the US tax authorities, withholding tax is not generally deducted from interest and dividends received by syndicate trust funds. Tax that is due on such income is accounted for as part of members' US tax returns.
- 1.2 Following the introduction of the new QI ("qualified intermediary") tax reporting rules in the US we have had to agree a new procedure to ensure that syndicates can continue to receive interest and dividends without withholding tax. This bulletin outlines the procedure and sets out the information that is required from syndicates in order for it to operate.

2. New Procedure

- 2.1 Lloyd's, which was already registered with the IRS as a Qualified Intermediary, has agreed to extend its QI status to cover Lloyd's syndicates. This enables Lloyd's to provide each custodian or bank with a form W8-IMY, so allowing them to pay interest and dividends to the syndicates without deduction of withholding tax. Lloyd's then assumes responsibility for primary withholding on this income.

2.2 The custodians will issue forms 1042-S to Lloyd's in respect of each account held. In order to comply with its obligations, Lloyd's will then reconcile the income reported on the forms 1042-S to the syndicate income that is reported for filing on the US first level tax return. The income will be reported to the IRS in the Lloyd's single return. The income will be reported to the IRS in the members' US tax returns.

2.3 Lloyd's Taxation Department has already contacted the main custodians acting for syndicates and has explained the position to them. Arrangements have also been put in place with the larger banks for the provision of information analysing the sums on forms 1042-S for tax reporting purposes.

3. Information required from syndicates

3.1 It is important that the procedure outlined is instigated as soon as possible to avoid tax being deducted retrospectively from syndicate funds. To ensure that the Lloyd's Members' Services Unit is aware of the information that it should be receiving, could you please complete and return the attached form by 30 April 2003, detailing the custodians for each syndicate fund. Nil returns are also required.

3.2 If the custodian is not one of the banks that is covered by the arrangement referred to in paragraph 2.3, you may need to request a break-down from it of the income reported on the form 1042-S. MSU Tax Operations will let you know if this is required.

3.3 Should you receive the forms 1042-S in respect of 2002 for your syndicates, these should be forwarded to Tax Operations Team, Corporation of Lloyd's, Dock Road, Chatham, Kent, ME4 4TU.

4. Charges

4.1 Administering the new QI tax reporting rules is a new service that is not currently detailed in the MSU price list, and is more onerous than the previous procedure. Therefore, it is proposed that charges to syndicates for 2003 will be made on a time and materials basis.

5. Contact

5.1 This bulletin has been sent to all managing agents and Lloyd's advisors. If you have any queries please contact Christine Allcott on 01634 392433.

Enclosure

DETAILS OF SAFE CUSTODY
ARRANGEMENTS FOR
QI PURPOSES

Syndicate Name: Syndicate Number:

Bank:

Address:

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Account Number:

Account Title:

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Contact name for queries with bank:

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Name of person completing form:

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Position held:

Telephone Number:

E:mail address: