

FROM: Head of Taxation
LOCATION: TAX/441
EXTENSION: 5228
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REFERENCE: TAX/MCM/ln/Y3158
SUBJECT: **PREMIUM TAXES – ADDITIONS TO THE CENTRAL TAXES SYSTEM**
ATTACHMENTS: Appendix 1
ACTION POINTS: **Underwriters and Brokers to note the introduction of new procedures for handling taxes on German, French, Greek and Monaco premiums**
DEADLINE: Now

1. Introduction

- 1.1 The purpose of this bulletin is to advise underwriters and brokers of the addition of new taxes to the central taxes system (CTS). With effect from 1 January 2004 the CTS will handle taxes due on open market business and business where there is no local coverholder for France, Germany, Greece and Monaco.
- 1.2 A full description of this system, which has been developed to handle premium taxes, and similar taxes and levies charged on insurance premiums, can be found in the market bulletin no. Y2594 dated 8 August 2001.

2. Additions to the CTS

- 2.1 Since 1 October 2001 the CTS has handled French, German and Greek business where there is no local broker. From 1 January 2004 the CTS will handle all business for these countries except local coverholder business. In addition it will handle all business for Monaco except business written through a Monegasque coverholder. This means that the following business will be handled through the CTS -

France - all open market business even if there is a French broker
coverholder business where there is no French coverholder even if there is a French broker

- Germany** - open market business even if there is a German broker
coverholder business where there is no German coverholder even if there is a German broker
- Greece** - open market business even if there is a Greek broker
coverholder business where there is no Greek coverholder even if there is a Greek broker
- Monaco** - open market business even if there is a Monegasque broker
coverholder business where there is no Monegasque coverholder even if there is a Monegasque broker
- 2.2 These new procedures will apply to all premiums for policies incepting on or after 1 January 2004. Lloyd's brokers should therefore ensure that their local correspondents are advised of the new procedures as soon as possible.
- 2.3 If a local coverholder places both binding authority and open market business at Lloyd's they will need to ensure that they can account for tax in two ways. They should continue to report and pay taxes due on coverholder business but taxes due on the open market business should be settled to Xchanging Ins-sure Services from 1 January 2004.

3. Responsibilities of Underwriters and Brokers

- 3.1 The placing and closing procedures already used for the countries covered by the CTS will be extended to the countries listed above.
- 3.2 **Underwriters are reminded that it is their responsibility to agree the amount of the taxable premium and the rate of tax due and the broker should provide them with the information needed to assess the tax position.** This information should be shown in panel 2 of the slip.

When the premium is signed the broker should show the taxes due on panel 2 of the slip. If there are a number of taxes the broker may prefer to show them on a separate slip attachment.

On a LMP slip taxes should be shown either as "taxes payable by insured" under the "risk details" section or as "taxes payable by underwriters" under the "fiscal and regulatory" section.

Underwriters and brokers can obtain information about the taxes payable in different countries using the premium tax database on the Lloyd's Taxation website www.lloyds.com/taxation. If you need a paper copy of the entry for any country please contact Lynda Newman in Lloyd's Taxation Department on 020 7327 6050.

4. The Role of Xchanging Ins-sure Services

- 4.1 Xchanging Ins-sure Services will check the way in which taxes are shown on slips and associated insuring documentation. Appendix 1 sets out their procedures.

5. Readership and Contact Details

5.1 This bulletin is being sent to all managing agents, underwriters, Lloyd's brokers and recognised auditors. If you have any queries please contact -

* For technical queries - Roger Ramage on 020 7327 6852 or
by e:mail roger.e.ramage@lloyds.com
Maureen McLeod on 020 7327 6860 or
by e:mail maureen.c.mcleod@lloyds.com

* For queries regarding the processing of business –
Xchanging Ins-sure Enquire helpline on extension 2999

David Clissitt
Head of Taxation

CHECKING PROCEDURES APPLIED BY XCHANGING INS-SURE SERVICES

Broker and Underwriters should note that Xchanging Ins-sure Services' technicians apply the following procedures to ensure that tax is correctly handled.

1. Countries covered by CTS

- 1.1 A *category A query* will be raised with the broker if the tax details are *missing* from the slip or bordereau in those cases where tax would be expected. Ins-sure will ask for the tax details to be shown **and agreed**.
[A category A query requires the problem noted to be resolved prior to completing the premium signing and would normally result in a physical rejection of the documents.]
- 1.2 A *category A query* will be raised with the broker if the tax details shown on the slip or bordereau are *inaccurate*, e.g. an incorrect tax rate or a taxable premium which when multiplied by the correct tax rate does not produce the tax amount declared. Ins-sure will ask for details to be amended **and agreed**.
- 1.3 A *category B query* will be raised with the broker if the tax details are *not shown properly* on slips, but adequate, accurate information is provided to allow signing to be completed. The query should explain the correct method of showing tax information, as per the details contained in this bulletin.
[A category B query still allows the premium to be signed as presented, but the broker is required to remedy the problem noted in the query prior to the next submission of the slip or upon renewal of the risk/slip details.]
- 1.4 Where '*Tax as applicable*' or '*as per NMA*' or similar vague statements are used on a taxable risk and it is clear that the correct tax has been applied, then LPSO technicians will raise a *category B query*, as explained in 1.3 above. However, where the tax applied is incorrect in any way, then Ins-sure technicians will raise a category A query as set out in 1.2 above.

The aim is to try and move away if possible from imprecise phraseology, although it can be used for facilities that have a global business application, e.g. world-wide binders and lineslips.

2. Responsibility for determining tax

Ins-sure cannot decide if a risk is taxable. This decision must be made by the leading underwriter. If there is any doubt about the tax position the slip will be referred to Lloyd's Taxation department for further investigation and advice.

3. Reinsurance

Taxes on reinsurance business should relate to the reinsurance contract itself, not the original risk(s). However, in some cases it is acceptable market practice for

underwriters to allow tax charged on an original risk. This will be accepted if the reinsuring underwriters agree to assume the taxes originally charged. Where tax is charged to reinsurers on risks where it would not normally be expected, then Insure technicians will query this with the broker and ask for underwriter's agreement, as provided for by the slip terms, to bear the cost of the tax.