

MARKET BULLETIN

From Manager, Tax Operations, Members' Services Unit (extn 2433)

Date 4 May 2006

Reference Y3806

Subject **Consolidated Taxation Advices - 2003 Year of Account**

Subject areas

Attachments Appendix 1 - Tax Computation Standard Template

Action points **Tax Computations to be Returned to Lloyd's
Standard Computation Template to be used by all**

Deadlines **1 July 2006**

1.0 Background

In order to provide members with a UK tax advice for their 2003 account results, certain information is required by MSU regarding the tax computations of the individual syndicates. The purpose of this bulletin is to inform managing agents of the information that is required by MSU for the 2003 account including run-off syndicates at 31 December 2005.

The Lloyd's Underwriters (Tax) Regulations 2005 changed the deadline for the filing of syndicate returns with HM Revenue & Customs (HMRC) to 1 July and the dates set out in this bulletin bring the MSU process in line with this new legislation. For further information on the changes to the tax administration, please refer to market bulletin Y3734 dated 26 January 2006.

2.0 Tax Computation Data

2.1 The form attached as Appendix 1 should be completed for each syndicate and should be returned to MSU within 7 working days of submitting the tax computation to HMRC Large Business Service Financial Sector (London) and in any event by no later than 1 July 2006.

2.2 Please note that managing agents may have previously used their own version of the tax computation forms. MSU has now streamlined these forms to enable the

automated upload of this data into our systems. **It is therefore imperative that all managing agents use the forms as set out in Appendix 1.** Unfortunately, MSU will not be able to accept any non-standard forms and managing agents will be asked to re-submit if the standard forms have not been used.

- 2.3 The forms will also be made available for download from the Market Returns web site on the L-Net within 10 days of the date of this bulletin. The site will also enable agents to upload their completed forms. Should you have any questions regarding the Market Returns website, please contact Anita Wallace on 0207 327 5899. When submitting your returns to HMRC, please ensure that you also complete the section on the LL250 authorising HMRC to disclose details of the tax determination to Lloyd's.
- 2.4 The new Regulations referred to in Section 1 apply self-assessment principles to the filing of tax returns and the determination of syndicate profits. When submitting your computation to MSU, please include a copy of HMRC Form LL250 which now constitutes the determination. Should HMRC enquire into the syndicate return please notify MSU, contact details are shown in 7.2 of this bulletin.
- 2.5 To produce fully reconciled consolidated taxation advices, MSU will utilise the syndicates' results data obtained through the centralised distribution systems.

3.0 Supporting Accounts

- 3.1 A copy of the syndicate annual accounts together with the underwriting accounts or relevant pages of the Lloyd's Annual Return should accompany the tax computation submitted to MSU. Please refer to Market Bulletin Y3734 dated 26 January 2006 for further guidance.

4.0 Exchange Rate Adjustments Required to the Tax Computations

- 4.1 A currency exchange adjustment is needed to recognise any exchange gain or loss between the closing rate of exchange used for the syndicate accounts and the rate of exchange applying in April 2006 when the US dollars were released to MSU.
- 4.2 Following the adoption of annual accounting in accordance with UK GAAP from 1 January 2005, the managing agent must now determine the most appropriate accounting policies to be used for year end reporting, including the determination of applicable accounting policies for exchange rates. The exchange rate adjustment included in the tax computation should therefore be calculated using the relevant rates of exchange used by the syndicate for accounting purposes.
- 4.3 The following example illustrates how an exchange gain might be calculated on a US dollar surplus of \$1,000, based on a Lloyd's year end rate of 1.72 and a rate of 1.729 applying on 18th April 2006 when the US dollars were released to MSU:

\$1,000 converted to sterling at 1.729 = £578.37
 \$1,000 converted to sterling at 1.72 = £581.40

Exchange loss = £ 3.03

The assessable profit is therefore £578.37 i.e. the result of £581.40 shown in the accounts less an exchange loss of £3.03. This adjustment needs to be made in respect of any dollars being released from the syndicate to the members, regardless of the net result of the syndicate.

- 4.4 An exchange rate adjustment is only required where a surplus was paid to MSU. Please do not calculate an exchange gain/loss on syndicate cash calls that were paid to the syndicate as these adjustments will be calculated separately by MSU and reported on members' CTA2 advices.
- 4.5 An adjustment must also be made to the syndicate's profit/loss in respect of any CST released in US dollars to members during 2003, 2004 or 2005. A currency exchange adjustment is needed to recognise any exchange gain or loss between the rate of exchange at the date the CST was made and the closing exchange rate used for the syndicate accounts.

For example, if a syndicate made an early release of \$1,000 in respect of 2003 year of account profits in June 2004, when the exchange rate was 1.8295, a loss on exchange of £34.80 calculated using a Lloyd's year end rate of 1.72 should be included in the tax computation:

\$1,000 converted to sterling at 1.8295	=	£546.60
\$1,000 converted to sterling at 1.72	=	<u>£581.40</u>
Exchange loss		<u>£ 34.80</u>

A list of average month end exchange rates are provided at the end of this bulletin to assist with the calculation of these adjustments.

- 4.6 The exchange rate adjustments must be included within the tax computations and managing agents should provide full details of the calculations to both LBS Financial Sector (London) and to MSU. The adjustments need to be shown on the face of the computation where indicated.

5.0 Quota Share Information

- 5.1 Where managing agents are aware of members entering into personal quota share arrangements, they are asked to contact Annette Stone on Lloyd's extension 2376, to discuss how any relevant information can be provided.

6.0 Apportionment Schedules for Managing Agents

- 6.1 Notwithstanding that the legislative requirement to produce apportionment schedules remains, HMRC does not now require these as a matter of routine. However, HMRC does reserve the right to request them in exceptional circumstances. Where a managing agent receives such a request please forward it

to MSU within seven days of receipt. MSU will arrange for an apportionment schedule to be provided.

7.0 Timetable

7.1 The timetable for submission of data to MSU is shown below.

A	Syndicate tax computation information (Appendix 1)	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than 1 July 2006
B	Determination details - copy of LL250	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than 1 July 2006
C	Supporting Accounts	Within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than 1 July 2006
D	Exceptional requests for apportionment schedules	Within 7 days of receipt of the request from HMRC

7.2 All information in connection with the above should be addressed for the attention of Annette Stone, Tax Operations, Lloyd's Members' Services Unit, Gun Wharf, Dock Road, Chatham, Kent ME4 4TU, or by email to annette.m.stone@lloyds.com. Annette can be contacted on Lloyd's extension 2376 should you have any related queries that you wish to discuss.

8.0 Adherence to Deadlines

8.1 The consolidated taxation advice produced by MSU provides members with the majority of their taxation information relating to their underwriting activities at Lloyd's. In view of this it is important that the timetable in 7.1 is adhered to.

This Bulletin is being sent to all managing agents, recognised auditors and other preparers of UK tax computations. In addition it is being sent to members' agents for information only.

Christine Allcott
 Manager, Tax Operations
 Members' Services Unit

Table of Exchange Rates to be used for Calculation of Adjustment as Detailed in Paragraph 4.0

Month	Year	Average Exchange Rate
January	2003	1.6182
February	2003	1.6096
March	2003	1.5829
April	2003	1.5755
May	2003	1.622
June	2003	1.6608
July	2003	1.6254
August	2003	1.595
September	2003	1.6138
October	2003	1.6772
November	2003	1.6906
December	2003	1.7523
January	2004	1.8209
February	2004	1.8685
March	2004	1.8281
April	2004	1.8054
May	2004	1.7895
June	2004	1.8295
July	2004	1.8431
August	2004	1.8206
September	2004	1.7932
October	2004	1.8073
November	2004	1.8613
December	2004	1.9301
January	2005	1.8782
February	2005	1.8881
March	2005	1.9037
April	2005	1.8966
May	2005	1.8543
June	2005	1.8182
July	2005	1.7519
August	2005	1.7948
September	2005	1.8077
October	2005	1.765
November	2005	1.7354
December	2005	1.7457

Lloyd's MSU Syndicate UK Tax Computation
at 31 December 2005

Appendix 1

Syndicate Number: Open/Closed as at 31/12/2005:
Year of Account:

Prepared by:
Telephone Number:
Email address:

		£
1	Total Result for period (ADEG code RX01)	0
2	Exchange rate adjustments gain/(loss) - <i>refer to Market Bulletin</i>	0
3	Add: Disallowed syndicate expenses	0
4	Disallowed Personal expenses	0
	Taxes deducted from investment income	
5	Canadian withholding tax	0
6	Foreign withholding tax	0
7	sub-total	0
8	Less: Canadian withholding tax	0
9	Foreign withholding tax	0
10	Final Case I result	0
MEMORANDUM ITEMS		
11	Foreign tax on premiums	0
12	Canadian withholding tax	0
13	Other foreign withholding tax	0
14	Total foreign taxes	0
	Income exempt to non-residents	
15	Non UK domiciled	0

