

# MARKET BULLETIN

REF: Y4135

<b>Title</b>	Members' Tax on Japanese Business – Lloyd's Japan.
<b>Purpose</b>	To advise Managing Agents of changes to the way in which Japanese tax is funded.
<b>Type</b>	Event
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The purpose of this Bulletin is to notify managing agents of the new arrangements for collecting and paying Japanese Income tax, which is being brought into line with both US and Canadian income tax collection and payment arrangements.

## Background

Members who participate on syndicates writing business in Japan under the Lloyd's licence are subject to income tax in Japan on the profits arising from that business and also an inhabitant's tax. Inhabitant's tax payable by corporate members is based on their share capital and also the income tax payable. For individual members it is based on their previous year's income. In addition, corporate members are also subject to an enterprise tax which is based on the Japanese premiums received.

Previously, Japanese tax payments were funded by Lloyd's Japan and collected from the member via distribution. In future, payments will initially be funded directly from syndicates' Premium Trust Funds.

## Timetable for Japanese Tax

Corporate members are subject to Japanese tax on the profits of their Financial Year. Individual members are taxed on a calendar year basis. Instalments of tax, based on the tax paid in respect of the prior year, are payable during the financial year, but the timing of those payments will depend on the particular circumstances of the member. The timing of the final tax payment will also depend on the particular circumstances of the member but for most will be the 28 February.

### Future Tax Payments

Until now Japanese tax payable has been paid by Lloyd's Japan and has been recovered from members during the profit distribution process carried out by Market Services (formerly Members' Services Unit). As the amount of Japanese tax becomes more significant it is not equitable for Lloyd's Japan to fund the payment of this tax and therefore the arrangements are being amended. In future, in line with the treatment of other tax payments which are made on behalf of members such as the US income tax, all Japanese tax payments will be funded by the syndicates who participate in Lloyd's Japan. The tax will then be collected from the member via distribution and will match their liability based on their circumstances.

When collecting from the syndicates the basis of the allocation of each member's tax liability to the syndicates which that member participates on will depend on the nature of the tax.

- Inhabitant's tax will be allocated in proportion to the members' profits on those syndicates underwriting Japanese business.
- Enterprise tax will be allocated to the syndicates on which that member participates based on a pro-rata of the Japanese premium being generated by the syndicate for the year in question.
- Income tax will be allocated to the syndicates on which the member participates based on a pro-rata of the Japanese profits being generated by the syndicate years in question.
- Interim tax will be collected as a pro-rata of the previous year's allocation of tax.

The first collection of Japanese Tax from the syndicates will be the final tax payment for the 2007 Financial Year based on the results for the year to 31 December 2007. This was paid to the Japanese Tax Authorities by 29 February 2008 and therefore was funded by Lloyd's and is now accruing interest at 5.25%. This will be collected from syndicates by the end of March.

The tax will be collected from the syndicate in UK sterling and in accordance with current practice 10 days notice will be given in advance of the collection being made. The tax will then be collected from the member on the next distribution date and repaid to the syndicate in UK sterling. Therefore, the syndicate will not be exposed to any exchange rate risk in respect of the Japanese tax.

Any questions regarding the above should be addressed to:-

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