

MARKET BULLETIN

REF: Y4496

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|----------------------|---|
| Title | Consolidated Taxation Advices – 2008 Year of Account |
| Purpose | To set out the timetable and procedures for the submission of the syndicate tax computations |
| Type | Scheduled |
| From | Christine Allcott, Manager, Tax Operations Direct Tel No: 01634 392433 E-mail: Christine.allcott@lloyds.com |
| Date | 1 June 2011 |
| Deadline | 1 July 2011 |
| Related links | Appendix A – Instructions on how to Register to use CMR as a Service Provider. Appendix B – Registering to use CMR as a Service Provider. Appendix 1 – Syndicate Tax Computation Standard Template. |

Please copy this Bulletin and its attachments to those within your organisation that are responsible for reviewing and completing the syndicate UK tax computations. Please note that the instructions have changed this year due to the development of a new IT solution for submission of the data.

1.0 Background

In order to provide members with a UK tax advice for their 2008 year of account results syndicates are required to submit certain information to Tax Operations. The purpose of this bulletin is to inform managing agents of the information that is required by Tax Operations for the 2008 underwriting year of account including run-off syndicates at 31 December 2010.

2.0 Instructions

Please note that in order for Tax Operations to be able to produce CTA1s for members, syndicates need to follow the instructions below when completing their tax returns. This is compulsory for spread syndicates. If an aligned syndicate wishes to adopt a different treatment for any item, they must notify Lloyd's and HMRC that they are not following the instructions. When Tax Operations process the submitted

returns, if any deviations from the treatment set out in this bulletin are identified Lloyd's will seek confirmation from HMRC that they have been notified of this fact.

3.0 Tax Computation Data

A new computer system has been developed to produce the member level UK consolidated tax returns, as a consequence the process for making these returns to Lloyd's has changed. The UK tax computations will now need to be returned to Lloyd's via the Core Market Returns (CMR) website as an online form. Functionality has also been provided to enable additional documents to be attached and the computation to be printed for submission to HMRC. This will enable Tax Operations to import the data directly into its systems. However, it should be noted that Lloyd's will no longer be able to make any amendments to the return however minor. The standard template for the return is attached as appendix 1.

The online tax computation should be completed for each syndicate and should be submitted via CMR 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 close of business 1 July 2011.

Unfortunately, Tax Operations will not be able to accept any paper returns.

3.1 Accessing the forms

3.2 Managing Agents

Managing Agents have already been advised via CMR that the software to return the forms is available in the UAT environment and will be available in production from 1 June 2011. The devolved administrator at the managing agent will need to grant access to the new form known as TUK.

3.3 Other preparers of Lloyd's Syndicate UK tax computation (Service Providers)

If you prepare tax returns on behalf of a Lloyd's syndicate you will need to register with Lloyd's as a Service Provider which will give you access to the CMR website. If you prepared Lloyd's syndicate tax computations in 2010 Tax Operations have already contacted you, via e-mail with registration instructions. These instructions are attached as appendix A and can also be used by anyone who is preparing a Lloyd's syndicate tax computation on behalf of a Managing Agent. Once you have registered we will provide further instructions regarding accessing the site, which in turn provides the information that you will need regarding using the systems and the completion of the return.

3.4 Submitting the returns to HMRC

When submitting your returns to HMRC, please ensure that you complete the section on the LL250 authorising HMRC to discuss the contents of your computation with Lloyd's.

HMRC have also asked that we remind managing agents that the following documents also need to be submitted to them along with the syndicate tax return:

- LL250
- Syndicate Annual Accounts for 2010
- Syndicate Underwriting Accounts for the 2008 Year of Account

If there is no requirement for the Syndicate Underwriting Accounts to be audited, the documents to be sent to HMRC are extracts from the QMA (QMA100, QMA 102, QMA 201, QMA 205 and the Auditor's Report).

Should HMRC enquire into the syndicate return please notify Tax Operations, contact details are shown in 8.3 of this bulletin.

To produce fully reconciled consolidated taxation advices, Tax Operations will utilise the syndicates' results data obtained through the centralised distribution systems.

4.0 Exchange Rate Adjustments Required to the Tax Computations

The exchange rate adjustments described below 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 Tax Operations. The adjustments need to be shown on the face of the computation where indicated.

When preparing these calculations reference should be made to Market Bulletin Y4334 published by Lloyd's Tax Department on 20th November 2009, setting out HMRC's view of the tax treatment of various foreign exchange adjustments at member level. Spread syndicates must follow the instructions as set out in the Market Bulletin but should discuss with Lloyd's prior to submission if they believe that their accounting treatment of foreign exchange differs from that set out in the Bulletin. Single member syndicates may follow their own approach if they wish but should disclose this fact to HMRC and Lloyd's. Unfortunately, this does mean that Lloyd's may not be able to produce a CTA1 for the relevant member.

4.1 Distribution of US Dollar Profits

A currency exchange adjustment is needed to recognise any exchange gain or loss in relation to the distribution of US dollar profits, reflecting the foreign exchange profit or loss which arises from the date the year of account closes to the date on

which US dollar profits are released to Market Services (MS). For syndicates releasing dollars on 8 April 2011 the rate of exchange is 1.64145

Members will be notified in the CTA2 of the rate of exchange at the date the dollars were released to MS, so that they can make any further necessary adjustment if required in their own tax return.

The following example illustrates how an exchange loss might be calculated on a US dollar surplus of \$1,000, based on a Lloyd's year end rate of 1.57 and a rate of 1.64145 applying on 8 April 2011 when the US dollars were released to MS:

| | | |
|--|---|----------------|
| \$1,000 converted to sterling at 1.64145 | = | £609.22 |
| \$1,000 converted to sterling at 1.57 | = | <u>£636.94</u> |
| Exchange Loss | = | - £27.72 |

The assessable profit is therefore £609.22 i.e. the result of £636.94 shown in the accounts plus an exchange loss of £27.72. 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.

An exchange rate adjustment is only required where a surplus was paid to MS. 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 Tax Operations and reported on members' CTA2 advices.

4.2 Excess US dollar cash calls

For accounting purposes, syndicates retranslate any surplus US dollar cash calls from the date of receipt to the date of closure of the year of account (or the 36 month point if earlier) and include this adjustment in the syndicate accounts. No adjustment should be made in the syndicate tax return in respect of this amount.

However, it is necessary to include in the syndicate tax computation an adjustment to take account of any movement in the exchange rate from the date of the closure of the year of account to the date that the surplus is released to MS as described at 4.1.

4.3 Early US Dollar Profit Releases

An adjustment must also be made in the syndicate tax computation in respect of any early release of US dollar profits, from the 2008 Underwriting year of account that took place during 2008, 2009 or 2010. The syndicate accounts will include the gain or loss on exchange arising on early profit releases from the date of release to the date the year of account closes. The effect of the adjustment to the syndicate tax return shown below is to remove the exchange gain or loss described above from the syndicate result.

For example, if a syndicate made an early release of \$1,000 in respect of 2008 year of account profits in June 2009, when the exchange rate was 1.6370, the syndicate will have included a gain of £26.07 in its accounts. This is calculated as follows:

| | | |
|---|---|----------------|
| \$1,000 converted to sterling at 1.6370 | = | £610.87 |
| \$1,000 converted to sterling at 1.57 | = | <u>£636.94</u> |
| Exchange gain | = | £26.07 |

An adjustment should be made in the syndicate tax return to reverse out this gain, i.e. the syndicate should make an adjustment to include a corresponding loss of £26.07.

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

5.0 Foreign Taxes

Foreign taxes (including withholding taxes on investment income) that are potentially creditable in the members' tax returns should not be included as expenses in determining the syndicate's final trading result. The instructions given below are intended as a guide only and assume that these taxes are included as expenses in the syndicate accounts.

The total result for the period (ADEG code RX01) will include foreign taxes which have been treated as syndicate expenses in the syndicate accounts. Any such taxes which are either foreign taxes on profits or withholding taxes on investment income will need to be added back for the purposes of computing the syndicate's trading result. Please note that a full analysis by country of withholding tax is now required.

Lloyd's provides the syndicates with a schedule of foreign taxes on profits which have been computed by Lloyd's and charged as syndicate expenses. Please e-mail Gemma Tutt, Lloyds-Tax-Operations@Lloyds.com if you require a duplicate copy. It is expected that the taxes shown on this schedule will have been included as expenses in the syndicate result (ADEG code RX01) and will therefore need to be added back for the purposes of computing the syndicate's trading result for tax purposes. This schedule includes income tax paid in Australia, Belgium, Dominica, France, French Polynesia, Hong Kong, Israel, Malta, New Zealand, St Lucia, St Vincent and the Grenadines.

Tax liabilities which have been or will be recovered from members (e.g. US Federal Income Tax, Canadian Income Tax, Singapore Income Tax and Japanese Income Tax), would not normally be included as expenses in the syndicate accounts and therefore we would not normally expect to see any adjustment in the syndicate tax computation for these taxes.

Premium taxes, stamp duties, para fiscal charges and levies paid to any of the above countries (or any other country) do not require adjustment, since these are deductible expenses for the purposes of the syndicate's trading result.

6.0 Dividend Income

Following changes to the tax treatment of dividends from 1 July 2009, syndicates will need to provide additional analysis of their dividend income as part of their syndicate tax return.

For corporate members, most UK and foreign dividends are now exempt from tax. This applies to dividends received on or after 1 July 2009. The tax treatment for individual members remains the same, i.e. both UK and foreign dividends are taxable.

No adjustment needs to be made to the computation of the syndicate's trading result in respect of this change, as it has been agreed with HMRC that Tax Operations will make this adjustment on members' CTA1s. Therefore no adjustment is needed to the syndicate's trading result in respect of dividend income.

However, in order for Tax Operations to make the necessary adjustments on corporate members' CTA1s, syndicates will need to provide the amount of exempt UK and foreign dividends received on or after 1 July 2009 and allocated to the 2008 year of account. This should be included as a memorandum item on line 24 of the syndicate tax computation.

Syndicates will need to check whether their dividends meet the criteria for exemption under Finance Act 2009 Schedule 14 and managing agents are advised to seek independent professional advice if they are in any doubt about this. Any dividends which are not exempt should not be included in the amount reported on line 24.

7.0 Technical reserves and appropriate amount regulations

New legislation (Finance Act 2007 Schedule 11) has been introduced in respect of the taxation of general insurers' reserves, which requires insurers and Lloyd's syndicates to confirm that their reserves do not exceed the "appropriate amount". The first period to which the new rules apply to Lloyd's syndicates is the 2007 year of account.

Syndicates will need to provide the necessary written confirmation to HMRC along with their syndicate tax return but it is not necessary to provide this information to Lloyd's. Syndicates may choose to provide additional supporting evidence to HMRC but there is no requirement for this to be submitted to Lloyd's.

8.0 Timetable

8.1 The following documents must be submitted to Tax Operations within 7 days of submission to HMRC Large Business Service Financial Sector (London) and in any event no later than close of business 1 July 2011:

- A Syndicate tax computation information (Appendix 1)
- B Copy of LL250
- C Supporting Accounts
- D Detailed foreign exchange calculations

8.2 All information in connection with the above should be attached to the computation and should be submitted to Tax Operations via the CMR website.

8.3 Please contact Cheryl Masson on Lloyd's extension 2620, or Lorraine Neal on Lloyd's extension 2376 should you have any related queries that you wish to discuss.

9.0 Adherence to Deadlines

9.1 The consolidated taxation advice produced by Tax Operations 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 8.1 is adhered to.

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

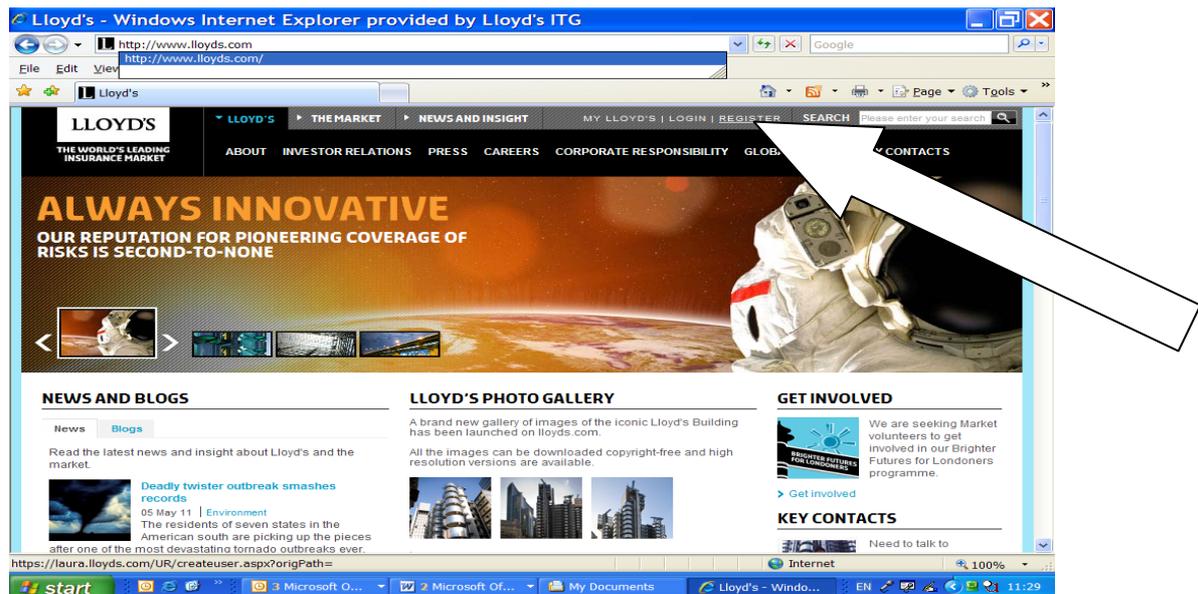
| | | |
|-----------|------|--------|
| January | 2008 | 1.9693 |
| February | 2008 | 1.9641 |
| March | 2008 | 2.0020 |
| April | 2008 | 1.9808 |
| May | 2008 | 1.9653 |
| June | 2008 | 1.9664 |
| July | 2008 | 1.9885 |
| August | 2008 | 1.8859 |
| September | 2008 | 1.7981 |
| October | 2008 | 1.6893 |
| November | 2008 | 1.5310 |
| December | 2008 | 1.4838 |

| | | |
|-----------|------|--------|
| January | 2009 | 1.4472 |
| February | 2009 | 1.4413 |
| March | 2009 | 1.4172 |
| April | 2009 | 1.4715 |
| May | 2009 | 1.5442 |
| June | 2009 | 1.6370 |
| July | 2009 | 1.6375 |
| August | 2009 | 1.6533 |
| September | 2009 | 1.6318 |
| October | 2009 | 1.6191 |
| November | 2009 | 1.6592 |
| December | 2009 | 1.6219 |

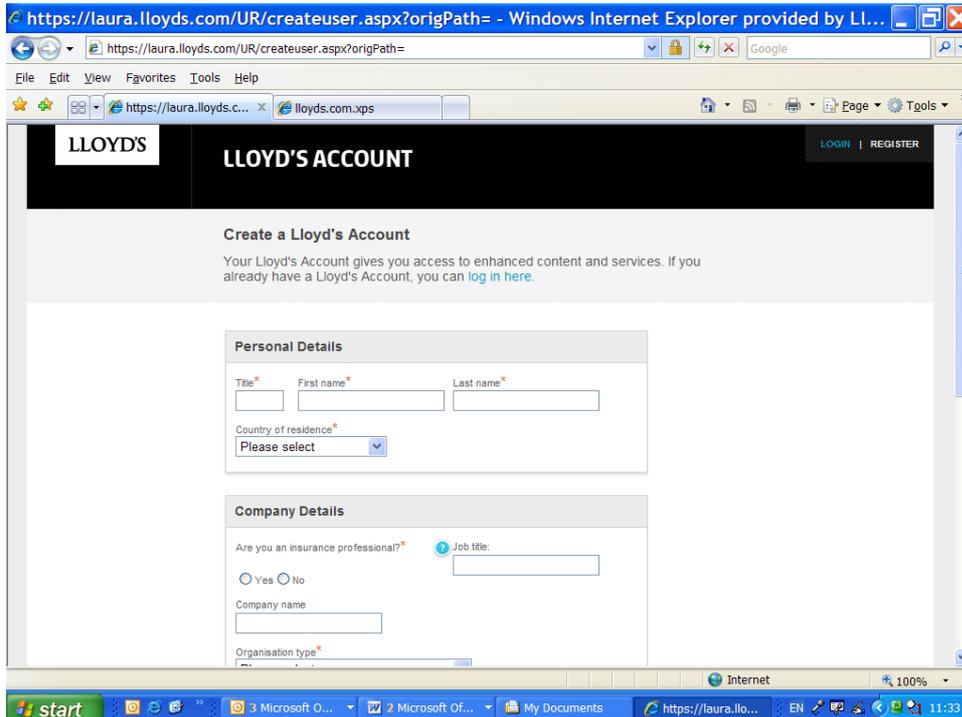
| | | |
|-----------|------|--------|
| January | 2010 | 1.6162 |
| February | 2010 | 1.5627 |
| March | 2010 | 1.5059 |
| April | 2010 | 1.5331 |
| May | 2010 | 1.4670 |
| June | 2010 | 1.4759 |
| July | 2010 | 1.5290 |
| August | 2010 | 1.5654 |
| September | 2010 | 1.5576 |
| October | 2010 | 1.5860 |
| November | 2010 | 1.5953 |
| December | 2010 | 1.5588 |

INSTRUCTIONS FOR SERVICE PROVIDERS TO GAIN ACCESS TO LLOYD’S CORE MARKET RETURNS (CMR)

1. Firstly it will be necessary to obtain a log on for LAURA production.
Via the internet go to www.lloyds.com



2 On the top grey bar click on REGISTER. This will take you to a page that will allow you to set up a LAURA account. Just follow the on screen instructions.



Once this has been completed an e-mail will be sent to you instructing you to activate your account by following the link. This step must be completed within 24 hours of registration.

5. Once the CMR account has been established Lloyd's will notify the managing agent in order that their administrator can grant access to the relevant return. Additionally we will send further instructions for utilising the system.

Once you have been set up as a service provider the return can be accessed by typing the following into your internet browser

UAT <https://uatcmr.lloyds.com>

Production <https://cmr.lloyds.com>

You will then be asked to log in using the log on details that you used to register for the service. If this is the first time that you have utilised the system you will also be requested to accept the terms and conditions.

CORE MARKET RETURNS

ADMINISTRATION OF EXTERNAL USERS

The responsibility of maintaining External Administrator Users within the Core Market Returns database lies with the Helpdesk.

Please complete the details below:-

| | |
|--------------------------------------|--|
| Service Provider Name | |
| First Name | |
| Surname | |
| Telephone Number | |
| E-Mail Address | |
| Position | |
| Alternative contact Name | |
| Alternative contact Telephone Number | |
| Alternative contact e-mail address | |

Please list overleaf the managing agents and Lloyd's syndicate numbers for who you act.

APPENDIX 1

Syndicate

Tax computation

Period: Reporting Years of Account (dropdown)
(Year must be 36 months or older)

YYYY

Reporting Period Summary

CTA1 Year 1
As at 31 December 2

Computation

| | | CNV |
|--|----|----------------------------------|
| | | A |
| | | 2008 |
| | | 2010 |
| Total Result for period (ADEG code RX01) | 3 | +/- |
| Exchange rate adjustments gain/(loss) - refer to Market Bulletin section 4.0 | 4 | +/- |
| Transfer pricing adjustments | 5 | +/- |
| Disallowed syndicate expenses | | |
| Entertaining | 6 | +/- |
| Non Trade Subscriptions | 7 | +/- |
| Donations | 8 | +/- |
| Capital Expenditure | 9 | +/- |
| Depreciation | 10 | +/- |
| Non-specific bad debt provisions | 11 | +/- |
| Other (please specify) | 12 | Analysis cell |
| Total disallowed syndicate expenses | 13 | A6+A7+A8+A9+A10+A11+A12 |
| Disallowed Personal expenses | | |
| Lloyd's charities trust | 14 | +/- |
| Other (please specify) | 15 | Analysis cell |
| Sub-total disallowed personal expenses | 16 | A14+A15 |
| Members' Agent Fee (ADEG RB09) | 17 | +/- |
| Total disallowed personal expenses | 18 | A16+A17 |
| Taxes | | |
| Add Certain Foreign income taxes - refer to Market Bulletin section 5.0 | 19 | +/- |
| Add Canadian withholding taxes | 20 | +/- |
| Add US withholding taxes | 21 | +/- |
| Add Foreign withholding taxes (excl Canada and US) country breakdown | 22 | Analysis cell |
| Result | | |
| Final trading result | 23 | A3+A4+A5+A13+A18+A19+A20+A21+A22 |
| MEMORANDUM ITEMS | | |
| Dividends received after 1 July 2009 - refer to Market Bulletin section 6.0 | 24 | +/- |
| Income exempt to non-residents | 25 | +/- |