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FROM: Manager - International Tax, Taxation Department
LOCATION: TAXl58/323
EXTENSION: 6860
DATE: 12 February 1998
REFERENCE: TAX/MCM/hrc/Y811
SUBJECT: FINLAND - PREMIUM TAX,

ACTION POINTS: **Underwriters and brokers to note new procedures.**
DEADLINE: **For business incepting on or after 1 March 1998.**

1. Introduction

1.1 A premium tax, at the rate of 22%, is payable on all insurance premiums where the associate risk is located in Finland unless the premium is specifically exempted from tax. The tax is payable by the insured but the insurer is responsible for collecting and paying it to the Finnish authorities. The insurer is required to appoint a fiscal representative who will assume responsibility for collecting the premium tax and paying it over to the tax authorities and Lloyd's has appointed Oy Infocon HB to act on behalf of Underwriters.

1.2 The purpose of this bulletin is to advise Underwriters and Lloyd's Brokers when tax is payable and set out a number of procedural changes necessitated by the recent change in law. Section 2 sets out the rules for determining whether a premium is taxable or not and Section 3 summarises Lloyd's Underwriters' fiscal responsibilities.

1.3 The arrangements for collecting and paying the tax are described in the following appendices:-

Appendix 1: The placing procedures
Appendix 2: The closing procedures for premiums processed through LPSO

2. What determines whether tax is payable.

2.1 The premium tax applies to Finnish business with a small number of specific exemptions. These exemptions are:-

reinsurance
life, including pensions and annuities
health and accident
marine and aviation
goods in international transit
credit

2.2 A risk is located in Finland if the insurance:-

(i) relates to buildings and/or their contents and the property is located in Finland

(ii) relates to a vehicle which is registered in Finland. For these purposes vehicle includes ships and aircraft

(iii) covers holiday or travel risks of up to four months duration and the policy is taken out in Finland

(iv) if(i) to (iii) does not apply then the risk is located in Finland if it covers a policyholder who is either:

an individual who is habitually resident in Finland

a business with its business establishment to which the policy relates in Finland.

2.3 The location and nature of the risk normally determine whether it is taxable or not (although as explained in 2.2 (i) and 2.2 (ii) different rules apply for buildings and vehicles). For a business the location of the business establishment determines the location of the risk.

2.4 If the policy covers risks which are located in Finland and risks which are located in other countries the premium must be apportioned and tax collected on the Finnish element.

The following are examples of policies where this may happen:-

Bankers blanket bond which provides cover for the Finnish branches/offices of a non-Finnish Bank,

E and O cover for accountancy and legal firms which operate in a number of countries including Finland.

D and O and liability cover for multi-national companies which have a Finnish subsidiary.

3. <u>The Fiscal Responsibilities of Lloyd’s Underwriters</u>

3.1 Lloyd's Underwriters are responsible for collection and payment and to ensure full compliance with Finnish law, a fiscal representative has been appointed to make returns on Underwriters' behalf

3.2 **When the amount of tax due has been agreed by the leading underwriter, the broker should collect it from the insured and pay it to Lloyd's with the premium.**

3.3 The Fiscal Representative will submit a tax return each quarter and the tax will be collected back from the syndicates and paid to the Finnish tax authorities.

4. <u>Fire Brigade Charge</u>

4.1 A Fire Brigade Charge of 3% is also due on the gross amount of the fire premium. For a comprehensive policy such as householders' all risks the charge is due on the proportion of the premium covering the fire risk. The Fire Brigade Charge will be calculated centrally and collected from syndicates. This means that the fire element of a Finnish premium must be closed on a separate LPAN.

4.2 It is believed that only a small number of risks will be subject to the Fire Brigade Charge. If a broker or underwriter needs further information about these procedures they should contact LPSO Technical Services on Lloyd's extension 2400 (or 0171 327 2400).

5. <u>Conclusion.</u>

5.1 This bulletin gives Underwriters and Brokers the information they need to decide whether a risk is taxable or not. It also advises brokers how they should place and close risks.

5.2 It is important that the procedures are followed. If insufficient tax is paid the Lloyd's Underwriter will be responsible for paying the further tax due together with any interest charge.

5.3 This bulletin is being sent to all underwriting agents, underwriters, Lloyd's brokers, all known computer bureaux and recognised auditors. If you have any queries on the technical aspects of the bulletin please contact me on Lloyd's extension 6860 (or 0171-327-6860) or Roger Ramage on extension 6852 (or 0171-327-6852). If you require information about the placing and closing procedures please contact LPSO Technical Services on Lloyd's extension 2400 (or 0171-327-2400).

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<u>Taxation Department.</u>

Appendix 1

PLACING PROCEDURES FOR FINNISH RISKS WHERE THERE IS NO FINNISH INTERMEDIARY.

1. Open Market Original Risks

At the time of placing the slip, the leader must agree with the broker the amount of taxable premium.

1.1 When an open market original risk is placed, the slip must contain sufficient information to identify that the risk does qualify as a Finnish risk. That is;

* the country of origin box on panel 1 must contain the country of the assured.
* the location of the risk exposure must be shown against the “SITUATION” or “LOCATION” heading on panel 2 of the slip.
* the name and address of any overseas correspondent must be shown on panel 1 of the slip in the “OVERSEAS BROKER” box.
* for risks involving a craft or vehicle, the registration details of the vessel, aircraft or motor vehicle must be shown on the slip next to the name or description of the craft/vehicle.

1.2 Panel 2 of the slip must contain the new heading of **“TAXES AND CHARGES”,** in the following manner:

TAXES AND CHARGES: **Finnish premium tax 22% on gross premium of (original currency and amount of taxable premium)**

1.3 Where the slip includes more than one risk code, the amount/proportion of taxable premium applicable to each risk coded slip section must be clearly shown and agreed on the slip.

1.4 Underwriters on risk must be aware of the application of Finnish premium tax. If reference to tax is omitted at placing, but is subsequently identified as applicable, underwriters’ agreement must be obtained to the addition of tax details to the slip in the manner specified above. The agreement required is that provided for by the slip terms, for example LUAMH, NMA or AVS100.

2. Open Market Additional and Return Premiums

2.1 The following procedures apply for additional or return premiums.

2.2 For any open market additional or return premiums (APs or RPs) where Finnish premium tax applied to the original risk and also applies to the AP or RP, then the slip endorsement must make reference to the same tax statement as indicated in section 1.2 of this bulletin.

2.3 For any open market AP or RP where Finnish premium tax did not apply to the original risk, but does apply to the AP or RP, then the slip endorsement must refer to the “TAXES AND CHARGES” heading as described in 1.2.

2.4 For any open market AP or RP where Finnish premium tax applied to the original risk, but does not apply to the AP or RP, then the LPO 141C endorsement must still make reference to the “TAXES AND CHARGES” heading and the words “not applicable” should be shown. This situation may arise for RP signings relating to profit commission or brokerage adjustments or rate of exchange adjustments.

2.5 For any open market AP or RP where Finnish premium tax does not apply to either the original risk or the AP or RP, then no specific action is required.

2.6 The agreement process described in 1.3 applies equally to Ap’s and **RPs.**

3 Facility Slips

3.1 Where a facility, such as:

* a limited binding authority for a Finnish coverholder

or

* a Lloyd’s brokers’ lineslip or cover,

or

* a Lloyd’s brokers’ binding authority,

is being placed, the facility slip must indicate the tax position for the risks that will be declared.

3.2 If the facility is restricted to Finnish business, then the slip should show a specific statement of

TAXES AND CHARGES: **Finnish premium tax 22% of gross premiums as declared.**

3.3 If the facility is able to accept a wider scope of geographical business, then the slip should show:

TAXES AND CHARGES **As may be declared.**

4 Risks Placed Electronically

4.1 The procedures outlined in this Appendix 1 for paper placed risks apply equally to electronically placed (EPS) risks with the following differences;

For open market original risks placed via EPS;

* the assured’s address, including the country code, must be completed on the common core record (CCR).
* any information required on panel 2 of the slip for paper placed risks must be included in the slip text.
* the name and address, including the country code, of any overseas correspondent must be shown in the intermediary fields within the CCR.

For open market additional and return premiums;

* where the LPO 141C is required on a paper placed risk, an EPS endorsement is needed.

5 Following Warranty Company

Risks placed at Lloyd's which are written on a "following warranty company" basis, must rely on the tax assessment made by the leading insurer for the whole risk. Reference to the new "TAXES AND CHARGES" heading must still be shown on the slip in accordance with section 1.2 of this Appendix.

Appendix 2

CLOSING PROCEDURES FOR FINNISH RISKS

1. Open Market Original Risks

1.1 The open market slip or off slip sent to LPSO for original signing must include reference to the **"TAXES AND CHARGES"** heading completed in the manner described in section 1.2 of Appendix 1. This should already be present on the placing slip seen by underwriters at the time of writing the risk.

1.2 The slip must be accompanied by the LPAN, completed in the usual manner.

1.3 Where the risk only relates partly to Finland, ie it involves exposure for other countries, then the Finnish part must be closed on a separate LPAN.

2. Open Market Additional and Return Premiums

2.1 The AP/RP slip endorsement, LPO 141C, must include reference to the **"TAXES AND CHARGES"** heading completed in the manner described in sections 2.2 to 2.4 of Appendix 1. These details should already be present on the endorsement seen and agreed by underwriters.

2.2 The slip, with the AP/RP slip endorsement attached, must be sent to LPSO with the LPAN completed in the usual manner.

2.3 Where the risk only relates partly to Finland, ie it involves exposure for other countries, then the Finnish part must be closed on a separate LPAN.

3. Facility Slips

3.1 The facility FDO signing slip sent to LPSO for original signing must include reference to the **"TAXES AND CHARGES"** heading on panel 2, completed in the manner described in sections 3.1 and 3.2 of Appendix 1. This should already be present on the slip seen by underwriters at the time of placing the facility.

3.2 No tax forms or other extra documentation are required by LPSO for FDO signings.

4. Declaration Additional and Return Premiums on Facilities

4.1 Where an AP or RP relating to bulked declarations is presented for signing to LPSO, the bordereau, slip endorsement or bookslip must identify those declarations relating to Finnish business. A separate LPAN is required to sign the total Finnish business from any other premium involved.

4.2 In addition, any bordereau must show the amount of taxable premium, plus the amount of tax due for each Finnish declaration. An overall total figure for the AP/RP in respect of Finnish taxable premium and the amount of tax must also be shown.

5. Foreign Insurance Legislation (FIL) Codes

5.1 In order to identify Finnish business which is subject to the 22% premium tax, LPSO will allocate a new FIL code.

Type of Business	*Four character Code*	*Two character Code*
Direct Non-taxable business	FIA1	OA
Direct Taxable business - Fire Brigade charge due	FIB1	FB
Direct Taxable business - Fire Brigade Charge not due	FIC1	FD
Reinsurance Facultative reinsurance	FIA2	OJ
Reinsurance Excess of loss reinsurance	FIA3	OS
Reinsurance Treaty reinsurance	FIA4	OS

5.2 These FIL codes will be shown on the Underwriters Signing Message (USM) supplied by LPSO.

6 Risks Closed Electronically

6.1 The procedures outlined for paper closed risks apply equally to electronically closed risks. Where, however, the risk relates partly to Finland and partly to other countries, the Finnish part must be closed as a separate sub-account within the RETACC message.