

<b>Title</b>	US Federal Excise Tax on Outwards Reinsurance
<b>Purpose</b>	<p>For Brokers to note</p> <ol style="list-style-type: none"> <li>1. from 20<sup>th</sup> April it will be best practice to provide LORS codes for every reinsurer on LORS US\$ premium collections.</li> <li>2. from 29<sup>th</sup> June the LORS system will be amended to make entry of the LORS code mandatory.</li> <li>3. the documentation that needs to be in place to amend a reinsurer's LORS status to "protected" for US Federal Excise Tax purposes.</li> </ol> <p>For Managing Agents to note</p> <ol style="list-style-type: none"> <li>1. To note the changes to both broker practices and the LORS system and to note the documentation that needs to be in place to amend a reinsurer's LORS status to "protected" for US Federal Excise Tax purposes.</li> </ol>
<b>Type</b>	
<b>From</b>	<p>Juliet Phillips, Head of Tax  Contact details: 0207 327 6839    juliet.phillips@lloyds.com</p>
<b>Date</b>	11 March 2009
<b>Deadline</b>	<p>20 April - Best business practice  29 June - LORS system makes entry of LORS reinsurer codes mandatory on US dollar premiums.</p>
<b>Related links</b>	

## 1 Introduction

The purpose of this bulletin is to advise brokers and managing agents of changes to business practices, and subsequent related system changes in LORS, which will improve Lloyd's ability to comply with US tax obligations.

These changes address the issues highlighted in Market Bulletin reference Y4028 (issued 21<sup>st</sup> June 2007) and have been discussed with the LMA and LIIBA.

## 2 Changes to Practice and LORS System

As from 20<sup>th</sup> April, when US\$ premiums are being collected via LORS, the full reinsuring market must be advised by brokers using the appropriate LORS Code identifier. The LORS code is used to determine whether US Federal Excise Tax ("FET") needs to be applied to the reinsurance premiums paid and these changes are being made to prevent overpayment of FET by the Lloyd's Market.

Managing agents should continue to monitor outward reinsurance data, to ensure reinsuring market and LORS code information is being accurately recorded and should support activities to identify the accurate FET protected status of reinsurers (see Section 3 below for further information).

On 29<sup>th</sup> June the LORS system validation will be changed to prevent transactions being processed where the LORS code has not been added for each Reinsuring Market line. New versions of the LORS Interactive User Manual and LORS EDI Specifications will be issued under separate cover by Xchanging in coming days. The documentation will also be available from the Xchanging Insurance Portal post the June implementation.

A copy of this Bulletin has been made available to broker software houses **but** it is the responsibility of brokers using the EDI service to ensure that their suppliers have these changes in hand. It should be noted that the LORS System will be unavailable on 28<sup>th</sup> June in order for the Xchanging system changes to be implemented. A reminder of this will be sent nearer the time.

No Market Acceptance Testing is planned for these changes as EDI messages are not changing in format and users of the service will be able to self prove that messages are being populated correctly.

No changes to either the underwriter screens within the Interactive service or the underwriter EDI messages will be made.

A short presentation and open forum will be held in the Auditorium at Xchanging's offices in Leadenhall Street on Tuesday 31<sup>st</sup> March, at 9.30 am. This will provide brokers and software houses an opportunity to discuss the changes with both the Xchanging development team and representatives from the Lloyd's Taxation team. Please contact Carla Knowles of Xchanging Customer Services (email: [carla.knowles@xchanging.com](mailto:carla.knowles@xchanging.com)) to reserve places at the presentation.

### **3 LORS Reinsurer Coding and Protected Status of Reinsurers.**

An issue that is frequently raised with Lloyd's Tax Department and XIS is that the LORS code does not always accurately reflect the FET status of the reinsurer. The US Internal Revenue Service audit all Lloyd's FET returns and require Lloyd's to provide evidence supporting the FET status of all reinsurers that are regarded as protected within the LORS codeset. Failure to produce this evidence results in audit adjustments, interest and possible penalties. For this reason the only reinsurers which are identified as protected within the LORS codeset are those reinsurers for which Lloyd's holds a valid FET Closing Agreement, the only evidence that the IRS have so far accepted. Brokers or Managing Agents who

believe that a reinsurer's FET status is not correctly reflected in the LORS codeset will need to obtain a copy of a valid FET Closing Agreement (if one exists) and provide it to Lloyd's Tax Department to enable us to amend the FET status.

The IRS are not prepared to provide a list of those reinsurers who have entered into FET Closing Agreements as it undermines their confidentiality arrangements. The IRS have also not determined what other documentation could be used to evidence a reinsurer's protected status in the event that they have not entered into an FET Closing Agreement.

Should you have any questions regarding reinsurer protected status or the handling of FET collection and payment please feel free to attend the above Presentation or contact me to discuss further.

#### **4 Contact**

Any queries relating to the content of Section 3 above should be addressed to Roger Ramage (telephone: 0207 327 6852) [roger.ramage@lloyds.com](mailto:roger.ramage@lloyds.com), Peter Walk (telephone: 0207 327 5477, email: [peter.walk@lloyds.com](mailto:peter.walk@lloyds.com)) or Juliet Phillips (telephone 0207 327 6839, email: [juliet.phillips@lloyds.com](mailto:juliet.phillips@lloyds.com)). Any queries relating to LORS system processing should be addressed to the Xchanging Customer and User Support Team (telephone: 01634 887717).

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