

**FROM:** Head of Taxation, Taxation Department  
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**REFERENCE:** TAX/MCM/ln/Y2594  
**SUBJECT:** **PREMIUM TAXES - CENTRAL TAXES SYSTEM**  
**ATTACHMENTS:** Appendices 1 and 2  
**ACTION POINTS:** **Underwriters and brokers to note the introduction of a new system for handling overseas taxes on premiums**  
**DEADLINE:** Now

## **1. Introduction**

- 1.1 This bulletin advises underwriters and brokers of a new central taxes system (CTS) that has been introduced to handle the recording and payment of premium taxes and similar taxes such as stamp duties that are charged on insurance premiums. The CTS will enable more streamlined procedures to be used with greater control over the process.
- 1.2 Those taxes which were already administered by Taxation Department were moved onto the CTS on 1 January 2001. With effect from 1 October 2001 five new taxes will transfer to the system, namely premium taxes on direct assured business in France, Germany, Greece and Italy and stamp duty on new Irish policies. Details of the new placing and closing procedures for premiums on such business processed by LPSO on or after this date are contained in Appendix 1.
- 1.3 Section 2 of this bulletin describes the CTS. Sections 3 and 4 outline the responsibilities of underwriters and brokers. Section 5 and Appendix 2 describe the checking procedures at LPSO. Sections 6 and 7 cover the reporting facility of the CTS and further market education.

## **2. The Central Taxes System - Background and Overview**

- 2.1 In the past information was only recorded centrally about taxes through the use of separate FIL (foreign insurance legislation) codes. However, there were disadvantages to this approach. It lacked flexibility and a separate LPAN was needed for each FIL code. A more simplified approach has therefore been developed that allows LPSO to record information about taxes in a separate system when the premium is signed, such as the type, the rate and the amount of tax. This information can be used by Taxation Department to complete returns and make tax payments to the relevant authorities following collection of the taxes due from syndicates.

## 2.2 The CTS has the following benefits –

- it allows greater control over the processes used to report and pay taxes, and will allow the central procedures that are already used for a number of countries to be extended to other countries;
- taxes can be paid with the premiums into syndicates' trust funds. This allows syndicates the use of the tax monies until they are due for payment;
- it can record taxes that are paid by the local broker or the insured. The cost of these taxes is often borne by underwriters and the CTS will have the facility to produce reports to help underwriters assess the full cost of writing business in certain jurisdictions;
- some taxes payable by underwriters are technically income taxes and syndicate members can claim double taxation relief against their UK tax. The CTS will be used to provide this information to members; and
- a single premium with tax exposures in more than one country may be closed to LPSO on a single LPAN.

## 3. The Introduction of the Central Taxes System

### 3.1 Taxation Department already administers the systems used to account for taxes in the following countries –

<b>Austria</b>	all business
<b>Belgium</b>	direct assured business where there is no Belgian broker
<b>Canada</b>	marine business only
<b>Finland</b>	all business
<b>Luxembourg</b>	all business
<b>The Netherlands</b>	direct assured business where there is no Dutch broker
<b>Portugal</b>	all business
<b>Spain</b>	all business

The CTS is now being used to provide the tax data for these taxes and countries.

### 3.2 With effect from 1 October 2001 Taxation Department will assume responsibility for reporting the following taxes in the following countries –

<b>France -</b>	direct assured business where there is no French broker
<b>Germany -</b>	direct assured business where there is no German broker
<b>Italy -</b>	direct assured business where there is no Italian broker
<b>Greece -</b>	direct assured business where there is no Greek broker
<b>Ireland -</b>	stamp duty on new policies

At present the Lloyd's broker or insured is required to pay the tax for direct assured business in France, Germany, Italy and Greece to the General Representative's office for onward payment to the tax authorities. For premiums processed at LPSO on or after 1 October 2001 this procedure should no longer be followed and the broker should instead settle the tax with the premium to underwriters. Taxation Department will then collect it

from syndicates at the appropriate time and arrange for payment to the appropriate tax authorities.

The detailed placing and closing procedures which should in future be followed for these countries are set out in appendix 1. **The existing procedures should, however, continue to be used where there is a local broker – i.e. for business other than direct assured business in these countries.**

For Irish policies, with effect from the quarter beginning 1 October 2001 managing agents will no longer have to make returns of new policies for stamp duty purposes. The number of new policies will instead be recorded in the CTS and brokers are required to show this information on the bordereau presented for binding authority business. **The procedures set out in Appendix 1 should be followed for all Irish policies with effect from 1 October 2001.**

### 3.3 **Other Counties**

Tax is shown as a deduction on slips and LPANs for a number of countries, such as Australia and New Zealand, as the cost is borne by underwriters. This practice should continue. As mentioned in paragraph 2.2 above the amounts of these taxes is now being recorded in the CTS.

In future the tax rate or amount should be shown on the placing slip. Underwriters should note that phrases such as “taxes as applicable” and “as per Lloyd’s Underwriters Non-Marine Association” should no longer be used.

You will be advised through market bulletins when further taxes or countries are added to the CTS.

## 4. **Responsibilities of Underwriters and Brokers**

4.1 The placing and closing procedures already used for the countries listed in 3.1 will now be extended to the taxes and countries listed in 3.2 that are being added to the CTS. A detailed description of these procedures is contained in appendix 1.

4.2 Information about the taxes payable in different countries is contained in the premium tax database on the Lloyd's Taxation website. This can be found under "Market Information" on the Lloyd's site [www.lloydsolondon.com](http://www.lloydsolondon.com). If you need a paper copy of the entry for any country please write to Lynda Newman in Lloyd's Taxation Department [or email [lynda.a.newman@lloyds.com](mailto:lynda.a.newman@lloyds.com)].

## 5. **The Role of LPSO**

5.1 LPSO will check the way in which taxes are shown on slips and associated insuring documentation. Appendix 2 sets out their procedures and these have immediate effect.

## **6. Reports**

- 6.1 A facility to produce reports for underwriters and managing agents showing the taxable premium income and the taxes payable for the countries covered by the CTS will be available from 1 January 2002. Further details will be given later this year.

## **7. Workshops**

- 7.1 If there is sufficient demand Taxation Department will run workshops or hold presentations to help underwriters and brokers understand the taxes payable on insurance and reinsurance contracts. If you are interested in attending will you please let Lynda Newman in Lloyd's Taxation Department (e:mail [lynda.a.newman@lloyds.com](mailto:lynda.a.newman@lloyds.com)) know.

## **8. Readership and Contact Details**

- 8.1 This bulletin is being sent to all managing agents, underwriters, Lloyd's brokers, recognised auditors and software houses. If you have any queries please contact -

\* For technical queries on the taxes -

Roger Ramage on extension 6852 or  
by e:mail [roger.e.ramage@lloyds.com](mailto:roger.e.ramage@lloyds.com)

Peter Walk on extension 5477 or  
by e:mail [peter.j.walk@lloyds.com](mailto:peter.j.walk@lloyds.com)

Maureen McLeod on extension 6860 or  
by e:mail [maureen.c.mcleod@lloyds.com](mailto:maureen.c.mcleod@lloyds.com)

\* For queries regarding the processing of business –

LPSO Enquire helpline on extension 2999

David Clissitt  
Head of Taxation  
Taxation Department

**PLACING GUIDELINES FOR TAXABLE RISKS**  
**(FOR BROKERS AND UNDERWRITERS)**

**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 applicable to a given country. That is:

- The country of original box on panel 1 must contain the country of the assured or reassured.
- 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 the overseas correspondent involved 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 should contain the heading ‘**TAXES AND CHARGES**’, for completion in the following manner:

**TAXES AND CHARGES: (Name of country) (Type of tax) of (Tax rate) on gross premium of (original currency and amount or proportion of taxable premium).**

**For example;**

**TAXES AND CHARGES: Australian income tax of 3.4% on 100% gross premium**

An alternative approach is;

- ◆ **where the taxes applicable are payable by the assured/reassured in addition to the premium, the same tax details statement may be shown against the panel 2 heading of ‘PREMIUM’.**

**For example:**

**Irish stamp duty of IEP1.00 per new risk/policy, total due IEP1.00**

**or**

**Finland premium tax of 22% on gross premium of USD30, 000.00**

- **where the cost of the taxes applicable falls to be borne by syndicates out of the risk gross premium, this may be shown on the slip .**

**For example: Belgian income tax of 4.017% of BEF50,000.00**

**Phrases such as “As per Lloyd’s Underwriters Non-Marine Association” or “tax as applicable” should not be used.**

- 1.3 Where a risk involves tax exposure in more than one country, the risk premium must be apportioned to each country and tax that is applicable. The results of the underwriter's decisions must be shown on the slip, in the same manner as described in section 1.2.

For example, in the case of a risk insuring property in UK and Portugal:

TAXES AND CHARGES:UK IPT 5% on GBP20, 000.00, Portuguese stamp duty 9% and FBC of 3.9% on GBP40, 000.00, plus contribution to Portuguese Insurance Institute at 0.33% on same.

In the case of more complex risks, it maybe more appropriate to show the taxes due on a separate schedule attached to the slip.

Underwriters should use the ' **INFORMATION**' area of the slip to give details of any tax calculations or apportionment rules that have been applied.

- 1.4 Where the slip includes more than one risk code or slip section, the amount/proportion of taxable premium applicable to each slip section must be clearly shown and agreed on the slip.
- 1.5 Underwriters on risk must be aware of the application of taxes and any parafiscal charges. 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 matter 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 For any open market additional or return premiums (APs or RPs) where taxes and charges applied to the original risk also apply to the AP or RP, then the slip endorsement must rely on the tax statement shown on the main slip, as indicated in section 1.2, unless the tax position for the endorsement details is different to the main slip.
- 2.2 For any open market AP where tax or fiscal charges did not apply to the original risk, but do apply to the AP, then the slip endorsement must refer to the same statement as indicated in section 1.2.
- 2.3 For any open market AP or RP where tax or fiscal charges applied to the original risk, but do not apply to the AP or RP, then the LPO 141C endorsement must still make reference to the 'TAXES AND CHARGES' heading, or equivalent, 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.
- 2.4 For any open market AP or RP where tax or fiscal charges do not apply to either the original risk or the AP or RP, then no specific action is required.
- 2.5 The agreement process described in 1.5 applies equally to APs and RPs.

### 3. Facility slips

3.1 Where a facility, such as:

- a binding authority for an overseas 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 one country's business, then the slip should show a specific statement such as:

**TAXES AND CHARGES: (Name of country) (Type of tax) of (Tax rate) on gross premium as may be declared.**

**For example;**

**TAXES AND CHARGES: Spanish premium tax of 6% on gross premium as may be declared.**

**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.**

**The alternative positioning and method for disclosing the taxes and charges details on the slip, as described in section 1.2, maybe used. Brokers and underwriters will need to ensure that the tax details are provided on bordereau produced under the facility<sup>1</sup>.**

**Phrases such as "As per Lloyd's Underwriters Non-Marine Association" or "tax as applicable" should not be used.**

### 4. Following warranty company

Risks placed at Lloyd's that are written on a 'following warranty company' basis must rely on the tax assessment made by the leading insurer for the whole risk. This may differ from the slip leader. Reference to the taxes and charges applicable must still be shown on the slip in accordance with section 1.2.

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## **CLOSING PROCEDURES FOR TAXABLE 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 or equivalent statement completed in the manner described in section 1.2 of the placing guidelines. 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 a risk involves tax exposures in several countries, then each taxable **country** must be clearly identified and may be closed to LPSO on a single LPAN signing. However, if any premium splits apply to the risk for regulatory reporting purposes, then these must still be closed on separate LPANS.

### **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 or equivalent statement as per 1.2 of the placing guidelines, completed in the manner described in sections 2.2 to 2.4 of those guidelines. 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 a risk involves tax exposures in several countries, then each taxable **country** must be clearly identified and may be closed on a single LPAN signing. However, if any premium splits apply to the risk for regulatory reporting purposes, then these must still be closed on separate LPANS.

### **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 or equivalent statement as per 1.2 of the placing guidelines, completed in the manner described in sections 3.1 to 1.2 of those guidelines. 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 or slip endorsement or bookslip must identify those declarations relating to each country's taxable business. Where the declarations involve tax exposures in several countries, then each taxable **country** must be clearly identified and may be closed on a single LPAN signing. However, if any premium splits apply to the declarations for regulatory reporting purposes, ie different FIL codes, then these must still be closed on separate LPANS.

- 4.2 In addition, any bordereau must show the amount of taxable premium, plus the amount of tax due for each declaration. An overall total figure for the AP/RP in respect of each country's taxable premium and amount of tax per tax type must also be shown. For example; Spanish premium tax (taxable premium and tax amount/rate), CLEA (taxable premium and tax amount/rate), Consorcio (taxable premium and tax amount/rate).

## Checking Procedures Applied by LPSO

Broker and Underwriters should note that LPSO technicians are applying the following procedures for all risks processed, with immediate effect.

### 1. For countries within CTS

- 1.1 A *category A query* will be raised with the broker if the tax details are *missing* from the slip or bordereau, in those cases where tax would be expected. LPSO will ask for the tax details to be shown **and agreed**.  
[A category A query requires the problem noted to be resolved prior to completing the premium signing and would normally result in a physical rejection of the documents.]
- 1.2 A *category A query* will be raised with the broker if the tax details shown on the slip or bordereau are *inaccurate*, eg an incorrect tax rate or a taxable premium which when multiplied by the correct tax rate does not produce the tax amount declared. LPSO will ask for details to be amended **and agreed**.  
[Technicians will telephone the broker in the first instance, explain the position and try to resolve the problem without physical rejection of the documents.]
- 1.3 A *category B query* will be raised with the broker if the tax details are *not shown properly* on slips, but adequate, accurate information is provided to allow signing to be completed. The query should explain the correct method of showing tax information, as per the details contained in this bulletin.  
[A category B query still allows the premium to be signed as presented, but the broker is required to remedy the problem noted in the query prior to the next submission of the slip or upon renewal of the risk/slip details.]
- 1.4 Where '*Tax as applicable*' or '*as per NMA*' or similar vague statements are used on a taxable risk and it is clear that the correct tax has been applied, then LPSO technicians will raise a *category B query*. However, where the tax applied is incorrect in any way, then LPSO technicians will raise a category A query.

**[The aim is to try and move away from imprecise phraseology, although it remains acceptable for facilities that have a global business application, e.g. world-wide binders and lineslips.]**

### 2. For all other countries that have tax exposure

- 2.1 For all other countries where taxes apply to risks, the placing and closing guidelines should still be applied.

### 3. **Is Tax Due?**

- 3.1 LPSO will not be the ultimate judge as to whether a risk should be taxable or not. This is a matter for the leading underwriter. Where any cases of doubt exist, the slip will be referred to Lloyd's Taxation department for further investigation and advice.

#### **4. Reinsurance Business**

- 4.1 Taxes on reinsurance business should relate to the reinsurance contract itself, not the original risk(s). However, in some cases it is acceptable market practice for underwriters to allow tax charged on an original risk. This will be accepted if the reinsuring underwriters agree to assume the taxes originally charged. Where tax is charged, where it would not normally be expected, LPSO technicians will query with the broker and ask for underwriter's agreement, as provided for by the slip terms, to bear the cost of the tax.

#### **5. Irish Business**

Irish stamp duty of IEP 1.00 applies only to new risks, ie not renewals. LPSO technicians will need to know if Irish open market original risks presented for signing are new business or renewals. This information will also be recorded for business written under binding authorities and lineslips.

Stamp duty does not apply to APs or RPs that adjust or amend risks.

Brokers are asked to note the 'new' or 'renewal' position on the top of the LPAN or front of the slip when sending documents to LPSO as well as showing the number of "new" policies including in bulking declarations to facilities on either the LPAN or bordereau.