

BUDGET 2009

Claims Equalisation Reserves

The Government have today confirmed their earlier commitment to introduce a tax relief in the form of a claims equalisation reserve for Lloyd's members. The new regime will apply retrospectively to profits which are treated as arising in 2008 (i.e. profits from the 2005 year of account). This has been welcomed by members some of whom will benefit from this earlier introduction.

Lloyd's has been in detailed discussions with HMRC regarding the mechanics of the regime and more detail will be available shortly. However, these discussions have progressed well and HMRC have tentatively confirmed that the regime will apply to all corporate members including SLPs and LLPs. Lloyd's will compute the claims equalisation reserve for members, but those members with member level reinsurance contracts in place may have to carry out their own calculations based on information provided by Lloyd's.

We are continuing to work with Government on their review of the case for extending the relief for Lloyd's and general insurers post Solvency II, when Claims Equalisation Reserves will no longer be recognised.

Dividend Exemption

Lloyd's corporate members will be exempt from tax on dividends and other distributions received from UK companies on or after 1 July 2009. This brings the tax treatment of UK dividends received by Lloyd's corporate members in line with the treatment of general insurers, and is something we have been asking for, for some time. Since the amount of equities held by Lloyd's corporate members is not large, this tax relief may not do much to reduce the tax burden but does illustrate that the Government are listening to our concerns.

Note: Individual members will continue to be subject to tax on UK and foreign dividends received which is analogous to the tax treatment of dividends received by individuals generally. The change to the taxation of foreign dividends received by individuals, which was announced today, will not apply to Lloyd's individual members as dividends received by members are subject to tax as trading income and not dividend income.

Foreign Profits

Following their review of the future taxation of foreign profits the Government has today announced that all foreign dividends will be exempt from tax from 1 July 2009. This exemption will also apply to Lloyd's corporate members with the result that from July all dividends received by Lloyd's corporate members will be exempt from tax.

Part of this package however also includes a potential restriction on the deductibility of intra group interest expense. The original proposal for the application of this rule would have been extremely burdensome for the Financial Services Industry but following much lobbying from

industry including Lloyd's, an exemption has been granted to those industries where debt forms an intrinsic part of the way that business is conducted (e.g. banking and insurance). We have been repeatedly assured that despite the wording of the current exemption Lloyd's will be included within the definition of insurance for this purpose and therefore many Lloyd's groups should benefit from the exemption removing concerns over an increased tax compliance burden.

Corporation Tax Rate

The main rate of Corporation tax will remain at 28% on and after April 2010.

Income Tax and Pension Contributions

In his Pre-Budget Report, the Chancellor announced a number of tax raising measures to be introduced once the economy has started to recover, in order to rebalance Government borrowing. One of these measures was to increase the tax rate to 45% for individuals earning income over £150,000 from April 2011. Today it was announced that the rate that will apply to income over £150,000 will be increased to 50% and the commencement date has been brought forward to April 2010.

Tax relief for pension contributions made by individuals earning over £150,000 will be restricted to the basic rate of income tax with effect from April 2011. However, legislation will be introduced in this year's Finance Bill to prevent those potentially affected by this measure from increasing their pension contributions to get the benefit of the current 40% tax relief