

Market Bulletin

Ref: Y5182

Title	Consolidated Taxation Advices – 2015 Year of Account
Purpose	To set out the timetable and procedures for the submission of the syndicate UK tax computation
Type	Scheduled
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Date	30 May 2018
Deadline	1 July 2018
Related links	Appendix 1 – syndicate UK tax computation standard template (TUK) Appendix 2 – instructions on how to register to use CMR as a service provider Appendix 3 – GBP/USD average monthly exchange rates

Please copy this Bulletin and its attachments to those within your organisation that are responsible for preparing the syndicate UK tax computation.

If you have any questions about the preparation or submission of the syndicate tax return, please email Lloyds-tax-operations@lloyds.com or contact Cheryl Masson (+44 (0)20 7327 2620). For foreign exchange queries, please contact Christine Allcott (+44 (0)16 3439 2433) or Aarti Dalsania (+44 (0)20 7327 6183).

1.0 Background

In order to provide members with a Consolidated Taxation Advice (“CTA1”) for their 2015 Year of Account (“YoA”) results, managing agents must submit a syndicate tax return (and supporting information) to Lloyd’s and HMRC in respect of the 2015 YoA. Managing agents may also need to submit a syndicate tax return in respect of earlier YoA that are in run-off as at 31 December 2017.

This bulletin has been produced solely for the purpose of providing guidance to managing agents in relation to submitting the syndicate tax return to Lloyd’s and HMRC and calculating certain adjustments that should be included in the syndicate tax return. Additional guidance on how to incorporate the result reported on the CTA1 into the member’s UK tax return will be provided with the CTA1.

2.0 Instructions

In order for Lloyd’s to produce CTA1s for members, managing agents must follow the instructions below when preparing the syndicate tax return. This is compulsory for spread syndicates.

If a managing agent of a wholly aligned syndicate deviates from the instructions below, in particular, the method of calculating foreign exchange adjustments (see Section 7.0), they must notify both HMRC and Lloyd’s. A copy of the notification to HMRC must be submitted to Lloyd’s with the syndicate tax return. Please note that taking such an approach may mean that Lloyd’s cannot produce a CTA1 or CTA2 for the relevant member.

If HMRC enquires into the syndicate tax return, you should notify Lloyd’s via email (Lloyds-tax-operations@lloyds.com).

3.0 Submitting the return to Lloyd’s

3.1 Filing the return on Core Market Returns (“CMR”)

The syndicate UK tax computation must be submitted to Lloyd’s via the Core Market Returns (“CMR”) website as an online form (TUK) within 7 working days of the submission of the syndicate tax return to HMRC and in any event, by close of business 1 July 2018.

The standard template for the TUK is included as Appendix 1
Lloyd’s cannot accept paper returns. It should be noted that unfortunately Lloyd’s cannot make any amendments to the return once submitted.

The software to return the forms will be available from 1 June 2018. The devolved administrator at the managing agent may need to grant access to the TUK form. If you are preparing the TUK form for the first time, either as an employee of a

managing agent or external adviser, you will need to register to use CMR as a service provider (Appendix 2).

3.2 Information that should be submitted to Lloyd's

The following documents should be submitted to Lloyd's as the syndicate tax return within 7 working days of the submission of the syndicate tax return to HMRC and in any event, by close of business 1 July 2018:

- Completed syndicate UK tax computation (TUK form)
- Copy of completed LL250 form submitted to HMRC
- Details of foreign exchange calculations (see Section 7.0)

Please note that a copy of the TUK form submitted to Lloyd's must also be submitted to HMRC.

4.0 Submitting the return to HMRC

The following documents should be submitted to HMRC as the syndicate tax return by close of business 1 July 2018:

- Copy of completed syndicate UK tax computation (TUK form) submitted to Lloyd's
- Completed LL250 form
- Audited Syndicate Annual Accounts for calendar year 2017
- Audited Syndicate Underwriting Year Accounts for the 2015 YOA¹
- Details of foreign exchange calculations (see Section 7.0)
- Written confirmation to HMRC that the Reinsurance to Close (or, in the case of run-off syndicates, provisions for claims outstanding, unearned premiums and unexpired risks) does not exceed the "Appropriate Amount" in accordance with Schedule 11 to FA 2007 and supporting regulations

5.0 Foreign taxes on profits

Lloyd's provides syndicates with a schedule of certain foreign taxes on profits which have been computed by Lloyd's for managing agents to use when preparing the syndicate tax computation. It is expected that the taxes shown on this schedule will have been included as expenses in the syndicate result for the period (ADEG code RX01). If this is the case, these taxes should be added back in the syndicate tax computation (line 19 Appendix 1) as they are potentially creditable in the member's UK tax computation. The taxes included on this schedule are for the following

¹ If there is no requirement for the Syndicate Underwriting Year accounts to be audited, extracts from the QMA (QMA100, QMA102, QMA201, QMA205 and the Auditor's Report) should be submitted.

countries: Australia, Belgium, Dominica, France, French Polynesia, Hong Kong, Israel, Malta, New Zealand, St Lucia, St Vincent and the Grenadines.

Please e-mail Lloyds-Tax-Operations@Lloyds.com if you require a duplicate copy of the foreign taxes schedule.

Tax liabilities which have been or will be recovered directly 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 an adjustment to be made in the syndicate tax computation in respect of these taxes.

Premium taxes, stamp duties, parafiscal charges and levies paid to any of the above countries (or any other country) do not usually require adjustment in the tax computation as they are not direct taxes in respect of profits.

6.0 Dividend income

The treatment of dividend income differs for corporate and individual members. For corporate members, most UK and foreign dividends are usually exempt from tax under the distribution exemption rules (Part 9A CTA 2009). For individual members both UK and foreign dividends should be taxable.

No adjustment is needed to the syndicate's trading result in respect of dividend income, however details of the amount of dividend income which should be treated as non-taxable for corporate members under Part 9A CTA 2009 must be provided as a memorandum item on line 24 of the syndicate UK tax computation (see Appendix 1). Managing agents should consider whether the dividend income received in the period meets the criteria for exemption. Dividend income which does not meet the criteria for exemption should not be included in the amount reported on line 24.

7.0 Foreign exchange

HMRC's expectation is that the approach taken by syndicates and members regarding the taxation of foreign exchange should be consistent from year to year.

7.1 Foreign exchange differences arising on transactions between the syndicate and member - summary

Foreign exchange differences can arise on certain transactions between the syndicate and member and the tax adjustments that may be needed in respect of these transactions (distribution of profits, excess cash calls and early profit releases) should be calculated when preparing the syndicate UK tax computation. The calculation of these adjustments is complicated by the fact that not all syndicates have a GBP functional currency - some syndicates may have a USD functional currency - and regardless of the functional currency of the syndicate,

many Lloyd's returns, including the syndicate tax return, must be submitted to Lloyd's in GBP. Accordingly, the foreign exchange adjustments that may be required in the syndicate tax computation in respect of these transactions may differ depending on the functional currency of the syndicate. The foreign exchange adjustments can also differ depending on the functional currency of the member. Therefore, the guidance on how to prepare these foreign exchange adjustments has been split into the three sections described below.

Please only follow the guidance in the section relevant to your syndicate.

Section 7.4

All syndicates using GBP functional currency

Section 7.5

Spread syndicates using USD functional currency

Section 7.6

Wholly aligned syndicates using USD functional currency where the syndicate and member both have USD functional currency

Details of the exchange rate adjustments described in Sections 7.4 - 7.6 must be provided to Lloyd's and HMRC with the submission of the syndicate UK tax return. The adjustments should be shown on the face of the computation where indicated (line 4 of the TUK, see Appendix 1).

Lloyd's will use the information reported on the syndicate tax return to prepare the CTA1 in GBP for all members. Lloyd's will prepare the CTA1 for all spread members and aligned members falling within the scope of Sections 7.4 and 7.5 on the basis that the functional currency of the member is GBP. The CTA1 for wholly aligned members within the scope of Section 7.6 will be prepared on the basis that the functional currency of the member is USD but will be presented in GBP². The guidance in Sections 7.4 – 7.6 is consistent with this basis of preparation. When preparing the syndicate UK tax computation for a spread syndicate, it is compulsory for managing agents to follow the guidance in Sections 7.4 and 7.5.

There may be valid alternative approaches to the taxation of foreign exchange arising on these transactions. If a managing agent of a wholly aligned syndicate deviates from the guidance below, they must notify both HMRC and Lloyd's (see Section 2.0).

Aligned members with a USD functional currency, in particular those on spread syndicates, will need to carefully consider the relevance of the foreign exchange adjustments made in the syndicate UK tax computation (and hence reported on

² If the managing agent follows the guidance in Section 7.6, the CTA1 should provide the taxable result for the wholly aligned USD member (including the adjustments calculated in Section 7.6) translated from USD into GBP at the same year end rate (spot rate the date the YoA closed) used for the purposes of preparing the QMA.

their CTA1) when preparing their own UK tax return and consider whether any additional foreign exchange adjustments are needed.

7.2 Foreign exchange differences arising on translation of the syndicate results

Where the syndicate and / or member have a USD functional currency, foreign exchange differences can also arise on the translation of the USD syndicate result for inclusion in the CTA1 and / or the translation of the GBP result reported on the CTA1 into USD for inclusion in the member's tax computation.

Additional guidance will be provided to members with the CTA2 on Lloyd's interpretation of the tax treatment of foreign exchange arising on the translation of the syndicate result and the necessary adjustments that may be required in the member's tax computation.

7.3 Other Comprehensive Income ("OCI")

The starting point for the syndicate UK tax computation should, strictly speaking, be the total profit or loss of the syndicate as reported in the relevant underwriting year accounts. As underwriting at Lloyd's is an annual venture which usually closes at the 36 month point, all gains and losses are usually treated as realised for the purposes of the underwriting year accounts i.e. amounts are not normally recognised as OCI in the underwriting year accounts.

The QMA 102 (which is often used as a proxy for the underwriting year accounts when preparing the syndicate tax computation) may, however, recognise amounts as OCI. These amounts would usually be included in the total profit or loss reported in the underwriting year accounts but would generally be recognised as income statement amounts, not OCI amounts. As it is the underwriting year accounts which are the starting point for the syndicate tax computation (and strictly speaking not the QMA 102), no adjustment would usually be required in the syndicate tax computation in relation to amounts recognised as OCI unless audited underwriting year accounts have been prepared which treat the amounts as recognised as OCI.

Please only follow the guidance in the section below that is relevant to your syndicate.

7.4 All syndicates using GBP functional currency

Distribution of USD profits

This adjustment is dependent on the member's functional currency and only usually relevant for members with a GBP functional currency (not USD functional currency).

For GBP functional currency members, an adjustment is required in the syndicate tax computation to recognise the foreign exchange gain or loss which may arise in

relation to the USD profit distribution from the date the YoA closes to the date the USD profits are released to Market Services (MS).

An exchange rate adjustment is only required where a USD surplus was paid to MS. Do not calculate an adjustment on cash calls that were paid to the syndicate as these adjustments will be calculated separately by Lloyd's and reported on the member's CTA2. However, please note that an adjustment may be required in respect of excess cash calls (see section below).

For syndicates releasing USD to MS on 10 April 2018 the exchange rate is 1.42. If you did not use the Lloyd's year end rate when calculating the profit due to members please calculate the foreign exchange adjustment with reference to the actual rate used and notify Lloyds-tax-operations@lloyds.com.

Members will be provided with the exchange rate at the date the USD were released to the member on the CTA2, so that if needed, they can make any further adjustments in their own tax return.

Example

- USD profit distribution of \$1,000
- Lloyd's year end exchange rate of 1.35
- USD released on 10 April 2018; exchange rate of 1.42

\$1,000 converted to £ at distribution rate of 1.42	=	£ 704.22
\$1,000 converted to £ at year end rate of 1.35	=	£ <u>740.74</u>
Foreign exchange adjustment	=	£ <u>(36.52)</u>

An exchange adjustment of £(36.52) should be included in the syndicate tax computation (line 4, Appendix 1).

The assessable profit is therefore £704.22 i.e. the result of £740.74 at the year end rate adjusted for the foreign exchange movement of £(36.52).

Excess USD cash calls

This adjustment should not be dependent on the member's functional currency.

An adjustment would usually be included in the syndicate accounts to reflect the translation of any excess USD cash calls from the date of receipt to the date of closure of the YoA (or the 36 month point if earlier). In accordance with Market bulletin Y4334, it is HMRC's view that this gain or loss should not be subject to tax. No adjustment should be made in the syndicate tax return in respect of this amount. Instead, Lloyd's will calculate the relevant adjustment at member level and include it on the CTA2.

Early USD profit releases

This adjustment should not be dependent on the member's functional currency.

An adjustment is required in the syndicate tax computation in relation to early USD profit releases to remove the foreign exchange gain or loss included in the syndicate accounts from the date of release to the date the YoA closes.

A list of average monthly exchange rates is provided at the end of this bulletin to assist with the calculation of these adjustments (Appendix 3).

Example

- Early USD profit release of \$10,000
- Lloyd's year end exchange rate of 1.35
- USD released in June 2015; exchange rate of 1.5575

The following adjustment would have been included in the syndicate accounts:

\$10,000 converted to £ at year end rate of 1.35	=	£ 7,407.40
\$10,000 converted to £ at distribution rate of 1.5575	=	<u>£ 6,420.54</u>
Foreign exchange adjustment	=	<u>£ 986.86</u>

An exchange adjustment of £(986.86) should be included in the syndicate tax computation (line 4, Appendix 1) to reverse out the adjustment included in the syndicate accounts.

7.5 Spread syndicates using USD functional currency

Distribution of USD profits

This adjustment is dependent on the member's functional currency and only usually relevant for members with a GBP functional currency (not USD functional currency).

For GBP functional currency members, an adjustment is required in the syndicate tax computation to recognise the foreign exchange gain or loss which may arise in relation to the USD profit distribution from the date the YoA closes to the date the USD profits are released to Market Services (MS).

An exchange rate adjustment is only required where a USD surplus was paid to MS. Do not calculate an adjustment on cash calls that were paid to the syndicate

as these adjustments will be calculated separately by Lloyd's and reported on the member's CTA2. However, please note that an adjustment may be required in respect of excess cash calls (see section below).

For syndicates releasing USD to MS on 10 April 2018 the exchange rate is 1.42. If you did not use the Lloyd's year end rate when calculating the profit due to members please calculate the foreign exchange adjustment with reference to the actual rate used and notify Lloyds-tax-operations@lloyds.com.

Members will be provided with the exchange rate at the date the USD were released to the member on the CTA2, so that, if needed, they can make any further adjustment in their own tax return.

Example

- USD profit distribution of \$1,000
- Lloyd's year end exchange rate of 1.35
- USD released on 10 April 2018; exchange rate of 1.42

\$1,000 converted to £ at distribution rate of 1.42	=	£ 704.22
\$1,000 converted to £ at year end rate of 1.35	=	£ 740.74
Foreign exchange adjustment	=	£ <u>(36.52)</u>

An exchange adjustment of £(36.52) should be included in the syndicate tax computation (line 4, Appendix 1).

The assessable profit is therefore £704.22 i.e. the result of £740.74 at the year end rate adjusted for the foreign exchange movement of £(36.52).

Excess GBP cash calls

This adjustment should not be dependent on the member's functional currency.

An adjustment would usually be included in the syndicate accounts to reflect the translation of any excess GBP cash calls from the date of receipt to the date of closure of the YoA (or the 36 month point if earlier). In accordance with Market bulletin Y4334, it is HMRC's view that this gain or loss should not be subject to tax. No adjustment should be made in the syndicate tax return in respect of this amount. Instead, Lloyd's will calculate the relevant adjustment at member level and include it on the member's CTA2.

Early GBP profit releases

This adjustment should not be dependent on the member's functional currency.

An adjustment is required in the syndicate tax computation in relation to early GBP profit releases to remove the foreign exchange gain or loss included in the syndicate accounts from the date of release to the date the YoA closes.

A list of average monthly exchange rates is provided at the end of this bulletin to assist with the calculation of these adjustments (Appendix 3).

Example

- Early GBP profit release of £10,000
- Lloyd's year end exchange rate of 1.35
- USD released in June 2015; exchange rate of 1.5575

The following adjustment would have been included in the syndicate accounts:

£10,000 converted to \$ at year end rate of 1.35	=	\$ 13,500.00
£10,000 converted to \$ at distribution rate of 1.5575	=	<u>\$ 15,575.00</u>
Foreign exchange adjustment	=	\$ <u>(2,075.00)</u>

An exchange adjustment of \$2,075.00 should be included in the syndicate tax computation to reverse out the adjustment included in the syndicate accounts.

As the syndicate tax computation must be prepared in GBP, in order to include this adjustment in the syndicate tax computation, this USD denominated adjustment should be converted to GBP at the same year end rate (spot rate the date the YoA closed) used for the purposes of preparing the QMA. For example, if a year end rate of 1.35 was used to prepare the QMA, an adjustment of $\$2,075.00 / 1.35 = \text{£}1,537.03$ should be included in the syndicate tax computation (line 4, Appendix 1).

7.6 Wholly aligned syndicates using USD functional currency (the syndicate and member both have USD functional currency)

Distribution of GBP profits

For USD functional currency members, an adjustment is required in the syndicate tax computation to recognise the foreign exchange gain or loss which may arise in relation to the GBP profit distribution from the date the YoA closes to the date the GBP profits are released to Market Services (MS).

An exchange rate adjustment is only required where a GBP surplus was paid to MS.

For syndicates releasing GBP to MS on 10 April 2018 the exchange rate is 1.42. If you did not use the Lloyd's year end rate when calculating the profit due to

members please calculate the foreign exchange adjustment with reference to the actual rate used and notify Lloyds-tax-operations@lloyds.com.

Example

- GBP profit distribution of £1,000
- Lloyd's year end exchange rate of 1.35
- GBP released on 10 April 2018; exchange rate of 1.42

£1,000 converted to \$ at distribution rate of 1.42	=	\$ 1,420.00
£1,000 converted to \$ at year end rate of 1.35	=	<u>\$ 1,350.00</u>
Foreign exchange adjustment	=	<u>\$ 70.00</u>

An exchange adjustment of \$70.00 should be included in the syndicate tax computation (line 4, Appendix 1). The assessable profit is therefore \$1,420.00 i.e. the result of \$1,350.00 at the year end rate adjusted for the foreign exchange movement of \$70.00.

As the syndicate tax computation must be prepared in GBP, in order to include this adjustment in the syndicate tax computation, this USD denominated adjustment should be converted to GBP at the same year end rate (spot rate the date the YoA closed) used for the purposes of preparing the QMA. For example, if a year end rate of 1.35 was used to prepare the QMA, an adjustment of \$70.00 / 1.35 = £51.85 should be included in the syndicate tax computation.

Excess GBP cash calls

An adjustment would usually be included in the syndicate accounts to reflect the translation of any excess GBP cash calls from the date of receipt to the date of closure of the YoA (or the 36 month point if earlier). In accordance with Market bulletin Y4334, it is HMRC's view that this gain or loss should not be subject to tax. As the CTA2 will not include an adjustment for this transaction, wholly aligned syndicates may wish to include an adjustment in their syndicate tax computation to remove this foreign exchange movement from their taxable syndicate result. The USD adjustment would need to be converted to GBP for inclusion in the syndicate tax computation at the same year end rate (spot rate the date the YoA closed) used for the purposes of preparing the QMA. Please refer to the example above in relation to distribution of GBP profits for guidance on this conversion.

Early GBP profit releases

An adjustment is required in the syndicate tax computation in relation to early GBP profit releases to remove the foreign exchange gain or loss included in the syndicate accounts from the date of release to the date the YoA closes.

A list of average monthly exchange rates is provided at the end of this bulletin to assist with the calculation of these adjustments (Appendix 3).

Example

- Early GBP profit release of £10,000
- Lloyd's year end exchange rate of 1.35
- USD released in June 2015; exchange rate of 1.5575

The following adjustment would have been included in the syndicate accounts:

£10,000 converted to \$ at year end rate of 1.35	=	\$ 13,500.00
£10,000 converted to \$ at distribution rate of 1.5575	=	<u>\$ 15,575.00</u>
Foreign exchange adjustment	=	\$ <u>(2,075.00)</u>

An exchange adjustment of \$2,075.00 should be included in the syndicate tax computation to reverse out the adjustment included in the syndicate accounts.

As the syndicate tax computation must be prepared in GBP, in order to include this adjustment in the syndicate tax computation, this USD denominated adjustment should be converted to GBP at the same year end rate (spot rate the date the YoA closed) used for the purposes of preparing the QMA. For example, if a year end rate of 1.35 was used to prepare the QMA, an adjustment of $\$2,075.00 / 1.35 = \text{£}1,537.03$ should be included in the syndicate tax computation (line 4, Appendix 1).

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

Total Result for period (ADEG code RX01)	3	+/-
Exchange rate adjustments gain/(loss) - refer to Market Bulletin Section 7.0	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	
Total disallowed syndicate expenses	13	A6+A7+A8+A9+A10+A11+A12
Disallowed Personal expenses		
Lloyd's charities trust	14	+/-
Other (please specify)	15	
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	
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	+/-

Appendix 2

1.1 How to gain access to Core Market Returns (CMR)

1. Go to www.lloyds.com
2. Click “Login/register” in the top right hand corner and follow the instructions to create a new Lloyd’s account.
3. Once the account has been created, please complete the CMR registration form in Section 1.2 and return the completed form to Lloyd’s via email (Lloyds-tax-operations@lloyds.com). On receipt of the completed form, Lloyd’s will grant the named individual with an account in CMR linked to the relevant managing agent(s).
4. Once the CMR account has been created, Lloyd’s will notify the managing agent(s) that the CMR devolved administrator will need to grant access to the TUK form. Lloyd’s will also send the individual further guidance in relation to using the CMR system and completing the TUK form.

Once the account has been set up, the individual will be able to access CMR (and the TUK) via <https://cmr.lloyds.com>

Appendix 3

Table of GBP/USD average monthly exchange rates for use in foreign exchange adjustment calculations in respect of early profit releases

January	2015	1.5162
February	2015	1.5321
March	2015	1.4972
April	2015	1.4938
May	2015	1.5443
June	2015	1.5575
July	2015	1.5555
August	2015	1.5581
September	2015	1.5336
October	2015	1.5327
November	2015	1.5191
December	2015	1.5000

January	2016	1.4408
February	2016	1.4313
March	2016	1.4245
April	2016	1.4312
May	2016	1.4530
June	2016	1.4208
July	2016	1.3140
August	2016	1.3098
September	2016	1.3147
October	2016	1.2339
November	2016	1.2430
December	2016	1.2467

January	2017	1.2347
February	2017	1.2489
March	2017	1.2347
April	2017	1.2642
May	2017	1.2928
June	2017	1.2812
July	2017	1.2994
August	2017	1.2953
September	2017	1.3323
October	2017	1.3197
November	2017	1.3218
December	2017	1.3398