FROM:	Head of Taxation, Taxation Department
LOCATION:	58/323
EXTENSION:	5228
DATE:	20 August 1999
REFERENCE:	TAX/DHC/hrc/Y2118
SUBJECT:	SYNDICATE TAXATION OF GOVERNMENT SECURITIES
SUBJECT AREA(S):	**Syndicate Taxation**
ATTACHMENT:	**None**
ACTION POINTS:	**Preparers of syndicate tax computations to note/apply**
DEADLINE:	**Now**

1. Purpose.

1.1 To remind Agents about recent changes in the way income and gains from UK Government securities are taxed.

2. FOTRA Securities.

2.1 At one time there were two categories of UK Government securities. One category provided certain exemptions from UK taxation for non-resident holders and these securities were known at FOTRA securities, that is "free of tax to residents abroad". The other category did not have these tax exemptions, and is sometimes referred to as "non-FOTRA securities".

2.2 There are also two categories of FOTRA securities. For FOTRA securities issued before 30 April 1996, the interest is subject to UK tax if it is connected with a trade carried on in the UK, but accrued income and capital gains are exempt. This is no longer true for securities issued after 29 April 1996 as the terms of the tax exemption have been modified. Where the securities are held in connection with a UK trade, the interest, accrued income and capital gains are all included as part of the trading result that is subject to UK tax.

2.3 As a result of provisions in the 1998 Finance Act which took effect from 6 April 1998, all non-FOTRA securities are from that date treated as if they were issued on FOTRA terms. However, the FOTRA terms are the ones applying to securities issued after 29 April 1996 so that the interest, accrued income and capital gains remain subject to UK if the securities are connected with a UK trade.

All securities held by Lloyd's syndicates are treated as held in connection with a UK trade. As a result the only securities which still benefit from exemption for accrued income and capital gains are the FOTRA securities issued before 30 April 1996. The 1998 changes do not have any practical effect on the taxation of Lloyd's syndicates.

2.4 When Agents produce syndicate tax computations for the 1996 Account they should therefore include exempt B adjustments for FOTRA securities issued before 30 April 1996 in the same way as they have done in the past.

Agents should not make exempt B adjustments for any FOTRA securities issued after 29 April 1996 or for any securities which are treated as FOTRA securities by virtue of the provisions of the 1998 Finance Act. The interest, accrued income and capital gains for these securities remain part of the Case I result for non-resident members.

2.5 Please note the 3.5% War Loan is not affected by these changes and interest, accrued income and capital gains continue to be exempt from tax for non-residents.

3. <u>Quarterly Accounting for Tax on Government Securities.</u>

3.1 The Market bulletin dated 1 February 1996 described the quarterly payment system introduced by The Lloyd's Underwriters (Gild-edged securities) Periodic Accounting for tax on Interest) Regulations 1995 known as "STAR acounts". These regulations remained in force until 5 April 1999.

3.2 Although the 1998 Finance Act provided that interest on Government securities could be paid gross without deduction of tax from 6 April 1998, managing agents were still required to account for tax on a quarterly basis as described in the Market bulletin although this tax can be reclaimed after the end of the closing year in the normal way. Any managing agent who has failed to account for tax is advised to contact City F as a matter of urgency.

3.3 With effect from 6 April 1999, the Regulations mentioned in 3.1 above were repealed and managing agents are no longer obliged to account for tax on a quarterly basis.

This bulletin is being sent to all managing agents and recognised auditors for information. If you have any queries will you please contact Maureen McLeod (extension 6860) or Roger Ramage (extension 6852).

David Clissitt
<u>Taxation Department</u>