

**FROM:** Head of Taxation, Taxation Department  
**LOCATION:** TAX/58/323  
**EXTENSION:** 5228  
**DATE:** 4 October 2000  
**REFERENCE:** TAX/RER/hrc/Y2377  
**SUBJECT:** SETTLEMENT OF THE 1994, 1995 AND 1996 SYNDICATE TAX RESULTS

**ATTACHMENTS:**  
**ACTION POINTS:** **Personal accountants and individual members who are dealing with their own tax affairs to note**  
**DEADLINE:** **Effective immediately**

## **1. Introduction**

- 1.1 This bulletin updates members on income tax matters following the settlement of the discounting dispute with the Inland Revenue. It:
- updates members on the current position with regard to the settlement of the 1994, 1995 and 1996 syndicate tax results (Section 2);
  - sets out the expected timetable for the issue of the final taxation advices CTA1 for each of the above accounts by Lloyd's Members' Services Unit (MSU) (Section 3);
  - gives guidance on the information to be provided to the Inland Revenue in order to amend relevant tax returns and to close years subject to an Inland Revenue enquiry notice (Sections 4 and 5);
  - publicises the Inland Revenue's proposed 'fast track' 1997-98 tax repayment procedures to be applied by Leeds (Underwriters Unit), Public Department 2 and the Financial Intermediaries and Claims Office (FICO) tax offices (Section 6 and Annex A);
  - notes the interest on late paid tax, repayment supplement and surcharge implications resulting from the filing of amended tax returns (Section 7);

- reminds members of important matters relating to loss relief and personal pensions relief (Section 8); and
- provides a contact name and number for those members and advisors who would like to pre-register for Lloyd's Taxation seminars (Section 9).

1.2 You are also reminded that for coming-into-line purposes, anticipated tax recoveries may be permitted as an asset in certain circumstances. This is on a discretionary basis and requires the specific approval of the General Manager, Members' Financial Services. More details are given in Market Bulletin Y2367 of 14 September 2000 entitled "Membership and Underwriting Requirements".

## **2. Current position on the settlement of the 1994, 1995 and 1996 syndicate tax results**

2.1 Following the withdrawal of the Inland Revenue's appeal against the General Commissioners' decision in the discounting test case in March this year, the Inland Revenue and syndicate managing agents have made very good progress in settling syndicate tax computations for the 1994, 1995 and 1996 years of account. This has taken some months because, irrespective of the discounting argument, the Inland Revenue also queried the amount of the RITC in many cases. All of the computations for 1994 Account are now agreed. Only a handful of computations are still unsettled for each of the 1995 and 1996 Accounts. It is hoped these will be agreed in the near future.

## **3. Timetable for issue of amended tax advices CTA1 (1994), CTA1 (1995) and CTA1 (1996)**

3.1 Subject to the agreement of the remaining unsettled syndicate tax computations for the 1995 and 1996 years of account, MSU (Tax Operations) expect to issue amended tax advices as follows:-

<u>Year of Account</u>	<u>Year of Assessment</u>	<u>Date of issue of revised CTA1</u>
1994	1997 – 98	by mid-October
1995	1998 – 99	by 30 November
1996	1999 – 2000	by mid-January 2001

3.2 The Inland Revenue has said there will be no relaxation of taxpayers' obligation to submit 1999-2000 Self-Assessment tax returns by 31 January 2001. In view of this, members and advisors are advised not to delay submission of returns in anticipation of the final CTA1 (1996) becoming available in early January.

## **4. Timetable for amending self assessments**

4.1 When members have received their CTA1s, they are obliged to notify the Inland Revenue of the correct figures without unreasonable delay. If there is an unreasonable delay, Section 97 Taxes Management Act 1970 deems there to have been negligence

and penalties can be charged. In the current situation, some members and tax advisors have said that it may take them until the end of March to submit revised figures to the Inland Revenue. The Inland Revenue has confirmed that, in the circumstances, this will not be treated as unreasonable delay.

## 5. Amending tax returns and closing Inland Revenue enquiries

- 5.1 This section is split into two parts: (i) procedures to be followed if the year of assessment is subject to an Inland Revenue enquiry and (ii) procedures to be followed if year of assessment is **not** subject to an Inland Revenue enquiry.

*Procedures to be followed if the year of assessment is subject to an Inland Revenue enquiry*

- 5.2 Members affected by the discounting dispute should have received an Inland Revenue enquiry notice for 1997-98 and may also have received an enquiry notice for 1998-99. In normal circumstances, once an enquiry notice has been issued, the legislation does not provide for tax repayments to be made until that enquiry is settled. However, in the case of Leeds (Underwriters Unit), Financial Intermediaries and Claims Office and Public Department 2 tax offices, it will take some time to settle the enquiries. Members who want to receive an early repayment from these offices should refer to Section 6 below.

- 5.3 The sequence of events for enquiry closure is as follows:-

- (i) The taxpayer supplies the Inland Revenue with finalised figures for inclusion in the revised return. These should ideally be expressed in terms of the relevant tax return box number and include a revised tax computation. A copy of the revised CTA1 should be included to allow the Revenue to check the figures without the need to correspond further.
- (ii) The Inland Revenue, once satisfied that the amended figures are acceptable, will issue a formal closure notice and invite the member to make a "taxpayer amendment". The closure notice will state the final tax liability for the year. The Inland Revenue will supply the member with a form to sign and return to them within a specified time limit. The form constitutes the "taxpayer amendment" and requires the member's own signature (an agent's signature will not be accepted). It is important that members anticipating a reduction in their liability on closure of the enquiry do not miss this deadline. The Self Assessment return will be amended once the Inland Revenue has received an acceptable "taxpayer amendment".
- (iii) In the absence of an acceptable "taxpayer amendment" within the specified time limit, the Inland Revenue may issue its own notice, but it is not required to do so. A member may appeal against the Inland Revenue's amendment within 30 days of the notice.

*Procedures to be followed if the year of assessment is **not** subject to an Inland Revenue enquiry.*

- 5.4 As with a year of assessment subject to an Inland Revenue enquiry (see 4.1 above), when correct figures are known a taxpayer must notify the Inland Revenue of these correct figures "without unreasonable delay".

5.5 Upon receipt of the final CTA1 for 1998-99 and, if appropriate, 1999-2000 a member should submit a taxpayer amendment to his or her tax office. In order to be accepted the amendment must meet the following requirements:-

- (i) for 1998-99 the amendment must be filed by 31 January 2001 (subject to 5.4 above);
- (ii) for 1999-2000 the amendment must be filed by 31 January 2002 (subject to 5.4 above);
- (iii) the amendment must be in writing. There is no special form, and the Inland Revenue has said that any one of the following is acceptable:- a letter, amended self-assessment pages and tax calculation; a complete return; or a revised Electronic Lodgement Service filing. It is not necessary for the amendment to be signed by the member provided the Inland Revenue is satisfied the agent is authorised to file the amendment.
- (iv) the amendment should show the tax effect of the amended figures. The following additional details will assist the Inland Revenue to process amendments without undue delay:-
  - a clear indication of which tax return is being amended;
  - a clear indication of the box numbers which need amending;
  - the new figure that is to be substituted for the relevant box;
  - a tax calculation.

5.6 If, in exceptional circumstances, a member is not subject to an Inland Revenue enquiry notice for 1997-98 then it is not now possible to file a taxpayer amendment for that year. If a member has overpaid tax because the underwriting profit differs from that originally returned, then a claim under Section 33 (error or mistake relief claim) may be competent and should be made. If, however, the final underwriting result increases the amount of tax due, the Inland Revenue has informed us that the member should still notify the tax office of the further liability without unreasonable delay.

## **6. Early repayment procedures to be applied by Leeds (Underwriters Unit), Public Department 2 and Financial Intermediaries and Claims Office (FICO) for 1997-98.**

6.1 In order to minimise delays which will arise in processing large volumes of amended tax returns and repayment claims for 1997-98, the Inland Revenue offices shown above have put procedures in place to deal with provisional repayments ahead of the formal settlement of enquiries. These procedures set out the steps that members or their advisors must follow to secure early repayment of tax. At a later date the Inland Revenue will ask such members to submit a "taxpayer amendment" and they must do so within a specified period or risk having to refund the provisional repayment.

6.2 Full details of these procedures are in Annex A to this bulletin.

- 6.3 These procedures are concessional and are confined to those members whose tax affairs are dealt with by one of the three offices mentioned. The Inland Revenue believes that they are not necessary in other tax offices as it does not expect there to be delays in settling enquiries for Lloyd's members there. This is because a much smaller number of members' tax affairs are handled by other offices.

## **7. Interest on late paid tax, repayment supplement and surcharges**

- 7.1 In view of the many different possible combinations of circumstances it is not possible to give exhaustive guidance in this bulletin on the impact of interest on late paid tax, or on repayment supplement or surcharges as a result of tax return amendments. The following basic principles should, however, be borne in mind:-

- (i) interest on unpaid tax runs from the normal due date(s) regardless of when the enquiry is settled. Surcharges may also arise if, following enquiry amendments, tax is not paid within 28 days of the due date (the due date is 30 days after the amendment);
- (ii) repayment supplement on the repayment of tax will normally run from the 31 January following the year of assessment (or the date of payment if later) up to the date of repayment. However, the position is more complex for tax that has been previously reallocated. In the case of tax reallocated to later years of assessment, repayment supplement will be calculated to the due date of the outstanding tax;
- (iii) where tax is reallocated to a later year, the effective date of payment for interest purposes will be the same as that of the original payment;
- (iv) if a tax liability for a year changes, the payment on account position for the following year may also change.

## **8. Important reminders**

### *Late claims to loss relief*

- 8.1 In normal circumstances, the time limit for claiming loss relief under Sections 380 and 381 ICTA 1988 for a 1997-98 loss is 31 January 2000. However, where an underwriting loss arises on conclusion of the discounting dispute Leeds (Underwriters Unit) have told us that a later claim will be admitted provided it is presented within three months of the relevant loss being agreed with the member's Inspector.

### *Relief for Personal Pension Payments*

- 8.2 For payments made in 1997-98, members who wanted to carry back relief to 1996-97, or where applicable to the previous year, had until 31 January 1999 to make the necessary election under Section 641 ICTA 1988. They would normally have a further 12 months from the filing date of the 1997-98 tax return (i.e. until 31 January 2000) to amend or withdraw the election.
- 8.3 If, however, there is an open Inland Revenue enquiry into the 1997-98 return, an election can be varied when the member is invited to amend the return on completion of the enquiry, i.e. 30 days from the issue of the Inland Revenue closure notice.

- 8.4 For payments made in 1998-99, members had until 31 January 2000 to make a Section 641 election, and normally a further 12 months until 31 January 2001 in which to vary it. However, if there is an open Inland Revenue enquiry into the 1998-99 return, the election can be varied when the Inland Revenue issues the closure notice and invites the member to amend his return within 30 days.
- 8.5 In the event that personal pension contributions cannot be fully relieved because there are no longer sufficient net relevant earnings in the year against which relief is claimed, the excess pension contributions will have to be refunded.
- 8.6 It should be borne in mind that members can also claim under Section 639 ICTA 1988 to have a personal pension payment relieved in the year of assessment in which the contribution is paid. Such a claim must be made within 5 years from the 31 January next following the year to which it relates. So, should a claim to carry back relief under Section 641 prove excessive, it may be possible to obtain relief in the year of payment instead.
- 8.7 If they have not already done so, members or their accountants may wish to consider making protective Section 641 claims to have any potential surplus payment carried back to 1998-99 before the time limit expires on 31 January 2001.

## **9. Lloyd's Taxation Seminars**

- 9.1 Lloyd's Taxation Department will, in association with the Inland Revenue, be holding a number of seminars in late October and the first two weeks in November. These seminars will focus mainly on the practical implications arising from the settlement of the 1994, 1995 and 1996 syndicate tax results. They will also cover some other topical issues for individual capital providers.
- 9.2 If you would like to receive details of the seminar programme and a registration form once arrangements have been finalised, please contact Helen Clark on 020 7327 6046 or Lynda Newman on 020 7327 6050.

## **10. Readership and contact details**

- 10.1 This bulletin is being sent to all underwriting agents, recognised auditors, personal accountants to individual members and members who deal with their own tax affairs.
- 10.2 If you have any questions relating to this bulletin please contact Roger Ramage on Lloyd's extension 6852 or Maureen McLeod on Lloyd's extension 6860.

David Clissitt  
Head of Taxation  
Taxation Department

**ANNEX A [Page 1]****Leeds (Underwriters Unit)**

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**Officer in Charge**  
**Steve Blackburn**

David Clissitt

Date: 25 September 2000  
Your ref:  
Our ref: 398/SJB  
N I No:

Dear David

As promised when we met recently, I am writing to set out the procedures we at Leeds Underwriters Unit, FICO and PD2 will be adopting to speed up the processing of 1997/98 overpayment cases.

We expect to be in a position to begin to settle the 1997/8 RITC enquiry cases within the next few months (that is, where enquiries were raised relating to the 1994 year of account). As tax will become due on 31 January 2001 the Revenue recommends that overpayments be carried forward toward settlement of that tax. In some cases, further tax will also become due following settlement of 1995 account (1998/9 income tax year) and there may be an advantage in having overpayments reallocated to that year also because of the way Revenue interest charges work.

Whatever happens, large numbers of amended returns will be submitted to the Revenue in a short space of time and this will lead to delay in dealing with them. But the Revenue is anxious to ensure that Lloyd's members who want immediate repayments get them as soon as possible. For those members whose tax affairs are not dealt with at either Leeds Underwriters Unit, FICO or PD2 it is unlikely that there will be any excessive delay, because the small number of cases in each Tax Office should allow normal turnaround times to be achieved. But, the larger numbers at LUU, FICO and PD2 mean delays are more likely. So these three offices have put procedures in place to help alleviate the problem.

A major hurdle to making early repayments is the legal process of actually closing enquiries. These require that a taxpayer first notify the Revenue of the amended figures, after which the Revenue invites a "taxpayer amendment". Only when the

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process is complete can returns be amended and final repayments be made. Due to the numbers of cases handled at Leeds Underwriters Unit, FICO and PD2, it is expected that the whole process could take several months, leading to delays in making repayments. Taxes becoming due at the end of January 2001 will add to the complication.

LUU, FICO and PD2 have decided, in these exceptional circumstances, that provisional repayments may be made ahead of formal settlement of the enquiries, subject to claims being in a specified form. This is only possible because the repayment can be accurately quantified. It will enable taxpayers to secure repayments earlier than might otherwise be the case. It will also allow these offices to undertake the formalities of settling enquiries over a longer period than would otherwise be the case. It helps the planning of workloads and continuity of other customer services to the benefit of all concerned.

Members whose tax affairs are dealt with at LUU, FICO or PD2 and who wish to claim early repayment should send their tax office

1. either an amended Lloyd's page or schedule of amended entries
2. a tax computation showing the revised liability and amount of repayment claimed
3. copies of revised Forms CTA1
4. where the original entry at Box 3L.58A was a composite figure made up of various elements confirmation that the revised figure is computed on the same basis
5. a statement to the effect that they accept that any provisional repayment is made on a without prejudice basis and that they will refund any excess should it be established that too much has been repaid
6. a statement that any Retirement Annuity/Personal Pension Relief claim has been reviewed and amended if appropriate.

At the end of this letter I have provided a checklist which members and their advisors can include with their repayment claim.



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Members who, for whatever reason, find that the revised 1997/8 return results in an increase in tax payable only need to follow steps 1,3 and 4. But they should consider the implications in terms of interest chargeable on the previously unpaid tax. This will be charged from 31 January 1999 to the date of payment regardless of the date on which the enquiry is formally settled. Payments on account may be advisable.

Members who have overpaid tax against 1997/8 may wish to set some or all of the overpayment against liabilities for later years. In fact, in the case of increases to 1998/9 liabilities, there may well be an advantage since the reallocated tax will retain original payment date when it is set against 1998/9. The Revenue will still be able to provisionally repay in these cases and reallocate a sum to 1998/9. But, the Revenue will need the final 1998/9 Lloyd's profit figures and related tax computation at the same time as those for 1997/8, which will mean this will only be possible after final CTA1's for account 1995 have been issued. Any overpaid 1997/8 tax not repaid will be automatically reallocated to the next liability to become due and this will usually arise on 31 January 2001.

It is intended that the bulk of work to formally settle the 1997/8 enquiries will be timed to be done along with that needed to deal with those for 1998/9, thus enabling LUU, FICO and PD2 to minimise the time cost to both themselves and taxpayers. This will take place after 31 January 2001.

Members who ask for provisional repayment should note that, until the formal process of settlement is complete, the legal tax liability remains unaltered. They will, in due course, be asked by the Revenue, in an enquiry closure notice, to submit a "taxpayer amendment" and they must do so within the specified period. Those who fail to do so may be asked to refund the provisional repayment.

Interest/Repayment Supplement and Surcharge implications:-

- Interest on unpaid 1997/8 tax runs from the normal due date(s) regardless of when the enquiry is settled. Surcharges may also arise if tax following enquiry amendments is not paid within 28 days of the due date (30 days after the amendment).
- Repayment supplement on 1997/8 tax repaid will normally run from 31 January 1999 (or date of payment if later) to the date of repayment, but the position is more complex for tax previously reallocated. In the case of 1997/8 tax reallocated to later years, supplement will run up to the due date of the outstanding tax.

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- Where tax is reallocated to a later year, the “effective date of payment” for interest purposes will be the same as that of the original payment.

Yours sincerely

S J BLACKBURN  
Officer in Charge

**ANNEX A [Checklist]****Checklist****Claim For Repayment / Set Off****Year 19..../19....****Name .....****Tax Reference.....**

1. Amended Lloyds pages and any other required revised pages or schedules are enclosed	Please tick [ ]
2. Class 4 NIC reviewed	[ ]
3. Retirement annuity relief/ Personal pension relief has been reviewed and amended if appropriate	[ ]
4. A tax computation showing a) the revised tax figure (box 18.3) and, b) the amount of repayment claimed are attached	[ ]
5. A copy of agreed CTA1 is enclosed	[ ]
6. Where box 3L.58A( aggregate syndicate profits) was a composite figure , the revised figure is computed on the same basis	[ ]
7. Acceptance that any provisional repayment /set off is made on a without prejudice basis , and any excessive claim established will be refunded	[ ]