

FROM: Head of Taxation
LOCATION: TAX/G4/441
EXTENSION: 5228
DATE: 23 December 2003
REFERENCE: Y3227
SUBJECT: **SYNDICATE VAT ACCOUNTING: CHANGE TO PROCEDURES**
ATTACHMENTS: None
ACTION POINTS: **Syndicates to change the VAT recovery rate calculation for Sector 1 of their special partial exemption method**
DEADLINE: Immediate

1. Introduction

- 1.1 This bulletin sets out a minor change to the calculation method to be used for syndicate VAT returns for the quarters ended 31 December 2003 onwards. From now onwards, current quarter premium information is to be used to determine the recoverable element of non-attributable input tax, rather than, as previously, the previous quarter's data.

2. Background

- 2.1 As part of the quarterly VAT return process syndicates are entitled to reclaim a proportion of non-attributable input VAT on the underwriting sector (Sector 1) in accordance with the recovery rate set out in section 7.4 of the Lloyd's VAT Arrangements. (For the text see the VAT section of our website www.lloyds.com/taxation.) The recovery rate is based on the value of premiums processed, both through LPSO and elsewhere.
- 2.2 The published Lloyd's VAT Arrangements allow syndicates to use the LPSO Premium VAT reports on a quarterly in arrears basis, as historically the current quarter information was not available in time for syndicates to use it to prepare and submit their VAT returns. This was effectively a concession on the part of Customs & Excise.

- 2.3 Customs have now withdrawn the concession on the basis that the LPSO Premium VAT reports are now available very soon after the quarter end. In preparing syndicate VAT returns for the quarters ended 31 December 2003 onwards, actual premiums processed for the quarter for which the VAT return is being prepared must therefore be used. Revised Lloyd's VAT Arrangements reflecting this change will shortly be made available.

3. Action required

- 3.1 Any syndicates that already use the current quarter premium values when preparing their VAT returns need not take any further action as a result of this bulletin.
- 3.2 All syndicates which to date have continued to use the previous quarter's figures to calculate the recovery rate must now use current quarter premium values in their calculations.
- 3.3 All syndicates within paragraph 3.2 also need to deal with the transition from a previous quarter basis to a current quarter basis. Customs have indicated that for such syndicates the calculation of the 2003 annual adjustment to be reported in the VAT return for the quarter ended 31 December 2003 should use the LPSO Premium VAT values for the 15 months from 1 October 2002 to 31 December 2003 to calculate the Sector 1 recovery rate.
- 3.4 The output amount to be included in Box 6 of the VAT return must be the actual premium values for that quarter.

4. Readership and contact details

- 4.1 This bulletin is being sent to all managing agents and recognised auditors.
- 4.2 If you have any queries, please contact Harinder Sandhu on 020 7327 5396 or e:mail harinder.sandhu@lloyds.com

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