

Market Bulletin

LLOYD'S

One Lime Street London EC3M 7HA

FROM: Head of Taxation
LOCATION: TAX/G4/441
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REFERENCE: Y3237
SUBJECT: **UPDATED LLOYD'S VAT ARRANGEMENTS**
ATTACHMENTS: VAT Arrangements (electronic version only)
ACTION POINTS: **For information**
DEADLINE:

1. Lloyd's VAT Arrangements provide a framework and guidance for the treatment of VAT in the Lloyd's market. The arrangements, which were last enclosed with market bulletin Y2507 of 28 March 2001, have been updated to take account of more recent developments.
2. The changes reflect the successful outcome of the VAT tribunal decision on supplies made by members' agents under the Members' Agent's Agreement, and the change in the syndicate VAT accounting procedure that was set out in market bulletin Y3227 of 23 December 2003. There is also some minor tidying up.
3. The text of the amended Arrangements is provided as an appendix to the electronic version of this bulletin. Sections which have been amended are marked with an asterisk. You can also access the text under the VAT section of our website at www.lloyds.com/taxation.
4. This bulletin is being sent to managing agents, members' agents, recognised auditors, direct corporate members and members' tax advisers. If you have any queries:

on the Lloyd's VAT Arrangements:
contact Harinder Sandhu on 020 7327 5396 (email harinder.sandhu@lloyds.com)

about getting a paper copy of the Arrangements:
contact Lynda Newman on 020 7327 6050 (email lynda.a.newman@lloyds.com)

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LLOYD'S
VAT ARRANGEMENTS

ARRANGEMENTS EFFECTIVE
FROM 1 JANUARY 2000

Revised version incorporating amendments
made on 6 January 2004

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1. INTRODUCTION

This document sets out administrative arrangements for operating VAT within the Lloyd's market. It was drawn up following an extensive review of the previous Lloyd's VAT Arrangements, which dated back to 1985 and a period of review and consultation with the Lloyd's market.

The Lloyd's VAT Arrangements set out in this document provide guidelines on the VAT registration and recovery treatment of entities operating within the Lloyd's market. They are intended to set out a minimum framework that Customs & Excise expect to be adopted, together with some methodology for the supporting evidence. However, the VAT methodology that is contained in these arrangements is not intended to be prescriptive or exhaustive, and so each VAT registered entity will have to formulate and agree with Customs & Excise a VAT recovery method that is suitable for its own specific circumstances and activities.

This document records arrangements that came into effect on 1 January 2000, and which have already been communicated to entities in the Lloyd's market by way of meetings and bulletins. It also records subsequent amendments to those arrangements.

In signing this agreement, Customs & Excise and the Corporation of Lloyd's underline the desirability and the benefit of the Lloyd's market's having a cohesive approach to VAT. However, these arrangements are subject to prevailing VAT law and are therefore without prejudice to the right of any entity to take an appeal to the VAT and Duties Tribunal on a matter of law.

2. SCOPE OF THE ARRANGEMENTS

2.1 The arrangements are for the use of the following entities within the Lloyd's market:

- Syndicates
- Managing agents
- Members' agents
- Lloyd's advisors
- Mixed agents
- Corporate members of Lloyd's
- Scottish Limited Partnerships (SLPs) which are members of Lloyd's
- Natural members of Lloyd's.

2.2 The arrangements exclude all other entities.

3 REGISTRATION

3.1 The following entities may register in their own right to account for VAT on their Lloyd's insurance market activities, subject to a requirement or entitlement to register:

- Syndicates (a syndicate is an unincorporated association of the participating members)
- Managing agents
- Members' agents
- Lloyd's advisors
- Mixed agents
- Corporate members (to the extent that para 3.4 applies)
- SLPs (to the extent that para 3.4 applies)

3.2 The following members may register in their own right to account for VAT on activities other than insurance underwriting, subject to a requirement or entitlement to register for VAT:

- Corporate members
- SLPs
- Natural members.

But see also paragraph 3.5 in relation to corporate members that are part of a group of companies.

3.3 Unless Customs & Excise have approved an application to render monthly returns, all registrations covered by these arrangements will render VAT returns on calendar quarters (stagger 1), that is March/June/Sept/Dec.

3.4 A corporate member or an SLP that has 100% of the underwriting capacity of a syndicate will be required to cancel the VAT registration of the syndicate as all the economic activities, including underwriting activities, are to be accounted for under the VAT registration of the corporate member or of the SLP. However, see also paragraph 3.5 in relation to corporate members that are part of groups of companies.

3.5 Whether or not a corporate member is required or permitted to register in its own right, a corporate member is eligible for membership of a VAT group, subject to the normal VAT grouping requirements being met. In the case where a corporate member has 100% of the underwriting capacity of a syndicate, and the VAT registration of the syndicate must be cancelled, the syndicate activities may be accounted for either under a single registration for the corporate member or under the registration of a VAT group of which it is a member.

- 3.6 Syndicates that are underwriting in the year 2000 or future years of account are entitled to register for VAT provided they do not write wholly EU business.
- 3.7 Syndicates that do not have a successor year of account at 31 December 1999 (that will not be underwriting for the 2000 year of account) will continue to be dealt with via the VAT registration of the managing agents. Subsequent to the 1999 year of account, syndicates that do not have a successor year of account can continue to be registered and will recover input tax at an average recovery rate calculated from the previous 3 years' underwriting premiums. For example, a syndicate that does not have a successor year of account to 2000 will have an average recovery rate based on the aggregate value of all premiums for the period from 1 January 1998 to 31 December 2000.

4 OUTPUTS

4.1 The outputs that will be declared by the entities within the scope of these arrangements for their activities at Lloyd's are described below. This is in addition to outputs that are derived from other activities.

4.2 *Outputs value*

The value to be declared for a supply is the total consideration for that supply. The consideration for a supply of insurance is the gross premium, including Insurance Premium Tax (IPT) and any other fiscal charges or levies, that is payable by the insured, without any deductions. The consideration for a supply of reinsurance is the gross reinsurance premium less reinsurance commission and profit commission.

4.3 The value of insurance and reinsurance premiums processed through LPSO Limited (LPSO) and notified to managing agents and syndicates will be calculated through a procedure agreed by LPSO, to reflect the full consideration.

4.4 *Syndicates*

The outputs to be declared are the total of the insurance and reinsurance premiums processed through LPSO and notified by them, plus any premiums not processed through LPSO, such as UK motor business. LPSO notification is evidence of the outputs processed through LPSO.

4.5 *Managing Agents*

The outputs to be declared are the value of supplies (fees charged for services under the managing agents' contract) by the managing agents to the syndicates that they are authorised to manage plus any other supplies made by the agent. Throughout these arrangements the term "fees" includes profit commission.

4.6 *Members' Agents*

The outputs to be declared are the value of supplies (fees charged to members under the Lloyd's members' agents' agreement) made to members, plus any other supplies made by the members' agent.

4.7 *Lloyd's Advisors*

The outputs to be declared are the value of supplies made to corporate members, plus any other supplies made by the advisor.

4.8 *Mixed Agents*

The outputs to be declared will be a combination of the managing agent supplies and the members' agent supplies, plus any other supplies made.

4.9 *Corporate Members*

No outputs will be declared from the underwriting of insurance in the Lloyd's market as these are to be declared by the syndicate. The outputs to be declared will be those from other activities. Where, however, the corporate member has 100% of a syndicate, the outputs to be declared will include the underwriting of insurance in relation to the wholly-owned syndicate.

4.10 *SLPs*

No outputs will be declared from the underwriting of insurance in the Lloyd's market as these are to be declared by the syndicate. The outputs to be declared will be those from other activities. Where, however, the SLP has 100% of a syndicate, the outputs to be declared will include the underwriting of insurance in relation to the wholly-owned syndicate.

4.11 *Natural members*

No outputs will be declared from the underwriting of insurance in the Lloyd's market as these are to be declared by the syndicates. The outputs to be declared will be those from other activities.

5 LIABILITY OF SUPPLIES

- 5.1 The liability of any supply will be determined by the VAT legislation in force at the time.

6. ENTITLEMENT TO INPUT TAX RECOVERY

(underwriting related activities only, all other supplies subject to the normal rules)

6.1 Syndicates

Recovery will be based on the value of supplies made by the individual syndicates.

6.2 Managing Agents

Recovery will be based on the value of services supplied to the syndicates they manage.

6.3 Members' Agents (to 31 December 2000)

Recovery will be based on the Global Market Rate.

6.4 Members' Agents (from 1 January 2001)

Recovery will be based on the Members' Agents Rate.

6.5 Lloyd's Advisors

Recovery will be based on the value of services supplied to corporate members.

6.6 Mixed Agents

Recovery will be based on the Members' Agents Rate (for the members' agent activities) and the value of the managing agent services (for the managing agent activities).

6.7 Corporate members

Whilst the primary purpose of the corporate member registration is to account for their activities other than syndicate underwriting, corporate members will also incur input tax directly in relation to their syndicate underwriting. Recovery of this underwriting related input tax will be based on the supplies made by them on the syndicates on which they participate.

6.8 Scottish Limited Partnerships

Whilst the primary purpose of the SLP member registration is to account for their activities other than syndicate underwriting, SLPs will incur input tax directly in relation to their syndicate underwriting. Recovery of this underwriting-related input tax will be based on the supplies made by them on the syndicates on which they participate.

6.9 *Natural members*

Whilst the primary purpose of the member registration is to account for activities other than syndicate underwriting, natural members will incur input tax directly in relation to their syndicate underwriting. Please refer to section 7.11 for details of the possible methods of recovery of input tax.

7. PARTIAL EXEMPTION

- 7.1 Each registration making taxable and/or specified supplies (under the Specified Supplies Order 1999 [SI 1999/3121]) in addition to exempt supplies will agree a partial exemption method with Customs and Excise. The method will reflect their business activities, in relation to which they will calculate the amount of recoverable input tax. The partial exemption methods will conform to the legislation that prevails.
- 7.2 Input tax will be directly attributed to supplies made and recovered as appropriate. Input tax that cannot be directly attributed to supplies made will be recovered via the agreed partial exemption calculations.
- 7.3 The treatment of investment activities undertaken by registrations will be agreed as a separate sector within each individual partial exemption method. Input tax recovery on other activities, e.g. share issues, will be subject to the normal rules and may constitute a separate sector.

7.4 *Syndicates – Partial Exemption Method*

The tax year will be 1 January to 31 December with the annual adjustment declared in the December quarter of that tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - UNDERWRITING

The calculation will be based on premiums processed, both through LPSO and elsewhere. Premiums processed by LPSO will be notified on summary reports.

Premiums will be coded by LPSO as follows,

- X = exempt and outside the scope with no input tax credit
- Z = outside the scope (O/S) with input tax (I/T) credit
- M = mixed, this will be split 50/50 to X and Z

The sector recovery calculation will be,

$$\frac{\text{Value of premiums O/S with I/T credit}}{\text{Value of total premiums}} = \text{recoverable \% to 2 decimal places}$$

SECTOR 2 - INVESTMENTS

The calculation will be based on either the number or the value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

7.5 *Managing Agents – Partial Exemption Method*

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - MANAGING AGENT

The calculation will be based upon the value of fees charged to syndicates which the managing agent is authorised to manage by Lloyd's. Where the fees relate to services supplied under the Managing Agent's Agreement (General) and Managing Agent's Agreement (Corporate Member) the liability split of the fees will be determined by the insurance business underwritten by the syndicates managed.

The sector recovery calculation will be,

$$\frac{\text{Value of O/S with I/T credit fees}}{\text{Total value of fees}} = \text{recoverable \% to 2 decimal places}$$

SECTOR 2 - INVESTMENTS

The calculation will be based on either the number or value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

OTHER SUPPLIES

Recovery of input tax in relation to supplies not made under the Managing Agent's Agreement (General) and Managing Agent's Agreement (Corporate Member) will be subject to the normal rules and may constitute a separate sector.

7.6 *Members' Agents – Partial Exemption Method*

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - MEMBERS' AGENT

This sector relates to the services provided to members under the terms of the Lloyd's Members' Agent's Agreement

The sector recovery calculation will be,

Non-attributable input VAT multiplied by the Members' Agents Rate = input VAT
recoverable to
the nearest
penny

SECTOR 2 – INVESTMENTS

The calculation will be based on either the number or the value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

OTHER SUPPLIES

Recovery of input tax in relation to supplies that are outside the terms of the Lloyd's Members' Agent's Agreement will be subject to the normal rules and may constitute a separate sector.

7.7 *Lloyd's Advisors – Partial Exemption Method*

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - LLOYD'S ADVISOR

The calculation will be based upon the value of fees charged to individual corporate members which the advisor is authorised by Lloyd's to advise.

The sector recovery calculation will be,

$$\frac{\text{Value of taxable supplies and other supplies with I/T credit}}{\text{Total value of supplies}} = \text{recoverable \% to 2 decimal places}$$

Input tax recovery on supplies that are outside the terms of the advisor's agreement may comprise a separate sector.

SECTOR 2 - INVESTMENTS

The calculation will be based on either the number or value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

7.8 *Mixed Agents – Partial Exemption Method*

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - MANAGING AGENT

The calculation will be based upon the value of fees charged to syndicates which the managing agent is authorised to manage by Lloyd's. Where the fees relate to services supplied under the Managing Agent's Agreement (General) and Managing Agent's Agreement (Corporate Member) the liability split of the fees will be determined by the insurance business underwritten by the syndicates managed.

The sector recovery calculation will be,

$$\frac{\text{Value of O/S with I/T credit fees}}{\text{Total value of fees}} = \text{recoverable \% to 2 decimal places}$$

SECTOR 2 - MEMBERS' AGENT

This sector relates to the services provided to members under the terms of the Lloyd's Members' Agent's Agreement

The sector recovery calculation will be,

$$\text{Non-attributable input VAT multiplied by the Members' Agents Rate} = \text{input VAT recoverable to the nearest penny}$$

SECTOR 3 - INVESTMENTS

The calculation will be based on either the number or value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

OTHER SUPPLIES

Input tax recovery on supplies that are outside the terms of the Managing Agent's Agreement (General), Managing Agent's Agreement (Corporate Member) or the Members' Agent's Agreement will be subject to the normal rules and may comprise additional separate sectors.

7.9 Corporate Members – Partial Exemption Method

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - INVESTMENTS

The calculation will be based on either the number or value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

SECTOR 2 - SYNDICATE UNDERWRITING

The calculation will be based on the premiums processed through LPSO and elsewhere.

The sector recovery calculation will be,

$$\frac{\text{Value of premiums O/S with I/T credit}}{\text{Total value of premiums}} = \text{recoverable \% to 2 decimal places}$$

Where the corporate member participates on a number of syndicates which makes the above calculation difficult, the Global Market Rate may be used in its place for this sector subject to agreement with Customs & Excise. However those members that participate solely on syndicates which write only EU business will not be permitted to use the Global Market Rate or recover input tax in relation to these supplies.

Where a corporate member owns 100% of the capacity on a syndicate consideration will need to be given to establishing a further sector for this activity.

7.10 *Scottish Limited Partnerships (SLPs) – Partial Exemption Method*

The annual adjustment will be declared in the first quarter following the end of their VAT tax year.

The partial exemption agreement will comprise at least the following components:

SECTOR 1 - INVESTMENTS

The calculation will be based on either the number or value of securities sales.

The sector recovery calculation will be,

$$\frac{\text{Number or value of O/S with I/T credit sales of securities}}{\text{Number or value of total sales of securities}} = \text{recoverable \% to 2 decimal places}$$

SECTOR 2 - SYNDICATE UNDERWRITING

The calculation will be based on the premiums processed through LPSO and elsewhere.

The sector recovery calculation will be,

$$\frac{\text{Value of premiums O/S with I/T credit}}{\text{Total value of premiums}} = \text{recoverable \% to 2 decimal places}$$

Where the SLP participates on a number of syndicates which makes the above calculation difficult, The Global Market Rate may be used in its place for this sector. However those members that participate solely on syndicates which write only EU business will not be permitted to use the Global Market Rate.

Where a SLP owns 100% of the capacity on a syndicate consideration will need to be given to establishing a further sector for this activity.

7.11 *Natural members – Partial Exemption Method*

Input tax arising from underwriting activities incurred by natural members who are registered for VAT as sole proprietors by virtue of business activities other than underwriting at Lloyd's may be recovered subject to the normal rules. The Global Market Rate will normally be used to calculate the recoverable amount. The exception to this will be any members who participate solely on syndicates which write only EU business. These members will be unable to recover any underwriting related input tax as they have only written insurance in respect of which there is no right to recover input tax.

Natural members who are VAT registered other than as sole proprietors are not entitled to recover input tax arising from their underwriting activities by virtue of that registration.

8. GLOBAL MARKET RATE (GMR)

- 8.1 The Global Market Recovery rate (GMR) will be calculated on an annual basis for each VAT tax year. During the current VAT tax year, the recoverable amount of non-attributable input VAT incurred in each quarter will be determined by reference to the GMR for the previous tax year. The actual GMR for the current year will be used to determine the annual adjustment for that year.
- 8.2 The GMR will be calculated using the value of all insurance business written in the Lloyd's market to include:
- the LPSO calculated gross premium VAT figures, including small pool business and IPT,
 - gross premiums (including IPT) not processed through LPSO for the previous year of account,
 - Records and Amendments section adjustments.

The method of calculating the GMR will be through a procedure agreed between Lloyd's and Customs and Excise and will be subject to review.

9. MEMBERS' AGENTS RATE (MAR)

- 9.1 The Members' Agents Recovery Rate (MAR) will be calculated on an annual basis for each VAT tax year. During the current VAT tax year, the recoverable amount of non-attributable input VAT incurred in each quarter will be determined by reference to the MAR for the previous year. The actual MAR for the current year will be used in determining the annual adjustment.
- 9.2 The MAR will be calculated using the value of all insurance business written in the Lloyd's market except for business written by those syndicates all of whose capacity is provided by a single corporate member or by a number of corporate members that belong to the same group. It will include:
- the LPSO calculated gross premium VAT figures, including small pool business and IPT,
 - gross premiums (including IPT) not processed through LPSO for the previous year of account,
 - Records and Amendments section adjustments.

The method of calculating the MAR will be through a procedure agreed between Lloyd's and Customs and Excise and will be subject to review.

10. INPUT TAX - ALTERNATIVE EVIDENCE

Input Tax - Claims expenses (“tabulation figures”)

- 10.1 The input tax on services supplied from within the UK in relation to claims will only be regarded as recoverable by the syndicate if the supply is to the syndicate and if the insured in relation to the claim belongs outside the EU. Such input tax is directly attributable to outside the scope supplies with input tax recovery under the terms of the Specified Supplies Order 1999. The evidence to substantiate input tax claims by syndicates is the Underwriters’ Signing Message (USM).
- 10.2 The information contained within the USMs will be substantiated by LPSO upon requests made by Customs and Excise to Lloyd’s via procedures agreed with Lloyd’s.
- 10.3 LPSO will retain the original invoices or their scanned images for the period required under prevailing VAT legislation and make them available upon request.

11. IMPORTED SERVICES

11.1 *LeBoeuf Lamb Greene & MacRae*

Fees charged by the US firm of LeBoeuf Lamb Green & MacRae are paid centrally by Lloyd's and recharged to the syndicates. The invoices produced by Lloyd's may be treated as invoices for the purposes of calculating the VAT charges under the reverse charge procedure. The fees charged to syndicates relate to a number of supplies and cannot at this time be directly attributed to specific supplies of insurance. Therefore the fees are regarded as residual and input tax may be recovered at the appropriate syndicate rate.

Gross net claims

- 11.2 Monthly summaries will be made of the values of claims costs processed by LPSO on behalf of syndicates.
- 11.3 A proportion of the services received in dealing with claims are supplied from overseas and are subject to the reverse charge procedure. To arrive at the value of the international services a survey is to be conducted periodically. The procedure and intervals will be as agreed with Lloyd's. Lloyd's will advise syndicates of the prevailing percentage figure.
- 11.4 Syndicates will apply the percentage to the gross net claims figures to arrive at the notional net value of reverse charge services. The VAT rate will be applied to the calculated figure to arrive at the output tax to be declared. The associated input tax will be recovered at the syndicate recovery rate.

Tax point

- 11.5 The tax point is taken as the last working day of the relevant month.

12. GENERAL

These arrangements are agreed as guidelines setting out a minimum framework for the operation of VAT in the Lloyd's market from 1 January 2000 onwards as amended by further agreement on 6 January 2004. Except as otherwise specifically stated, everything in these arrangements is to be governed by the VAT legislation in force at the time.

Signed Date.....
(Corporation of Lloyd's)

Signed..... Date
(HM Customs and Excise)