

**i Contacts**

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to

[www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## Lloyd's underwriters

This helpsheet gives additional information on the following subjects which may be of interest to Lloyd's underwriters and personal representatives filing pages on their behalf:

- foreign tax
- personal stop loss
- Capital Gains Tax
- conversion to limited liability underwriting
- losses
- relief for members who have been underwriting since before 1972
- Special Reserve Funds
- death
- exempt amounts.

### Foreign tax

Foreign tax is paid in connection with your Lloyd's results in three ways.

- 1 If any of your **personal funds** are invested abroad, foreign tax may be withheld when the interest, distribution and so on, is paid over to you – these sums are entered in boxes 13 and 16 on page LU 2 of the *Lloyd's underwriters* page or boxes 1L.41 and 1L.49 on page TLU 2 of the *Trust and Estate Lloyd's underwriters* page.
- 2 In some dozen or so countries, tax is levied by the overseas tax authority by reference to the profits of **syndicate business** written by agents operating in those countries. Lloyd's meets these tax bills centrally but the syndicate results reported to Names have been adjusted to include this tax.
- 3 Tax returns are made to the US and Canadian tax authorities of each Name's Lloyd's business in those two countries and Income Tax is levied on the reported profits. Lloyd's deals with the returns and liabilities centrally and reports to Names annually the amount of US and Canadian taxes paid (or repaid) on their behalf. The amount to enter in boxes 44 and 45 or 1L.74 and 1L.75 is the US and Canadian tax paid.

Other syndicate foreign tax paid should be entered at box 46 or 1L.76.

Where you have suffered foreign tax on income that is also liable to UK tax, relief for the foreign tax may be allowed. This is either by giving credit for the amount of foreign tax paid against UK tax on the same income or where there is not enough UK tax due (or if the Name so chooses), relief may be given as a deduction in arriving at the net profit or loss. You cannot claim relief partly as a deduction and partly as tax credit. If you are a Name resident outside the UK, you can claim tax charged by your own country on Lloyd's profits by deduction only.

### **Foreign pages: 2011-12**

The instructions on pages FN 13 and FN 14 of the *Foreign notes* for completing Columns A, C and F at the top of page F 6 do **not** apply to claiming tax credit relief for the foreign tax paid on your Lloyd's profits. This is because of the pooling basis that applies for Lloyd's foreign tax, which means that it is not necessary to identify separately the country in which the foreign tax is paid or branch profits in each country. Follow the instructions overleaf instead.

### **Column A**

Enter 'LYD' as the country code for the foreign country where the income arose.

### **Column C**

Enter the total amount, in sterling, of foreign tax paid on your Lloyd's income (from box 48 or 1L.78). Use the exchange rate prevailing at the date you received the income to translate the foreign tax to sterling.

### **Column F**

Enter the total profits from membership of Lloyd's (from box 52 or 1L.91).

If you are calculating your tax credit relief on your income, include the total foreign tax in box 3 on the *Foreign* pages then follow the instructions on Helpsheet 263 *Calculating Foreign Tax Credit Relief on income*, bearing in mind that for tax credit relief purposes your total profit from Lloyd's (in box 52 or 1L.91) is regarded as one item of income and foreign tax paid on Lloyd's income (in box 48 or 1L.78) is regarded as foreign tax on that item of income.

### **Foreign tax repayments**

You may have received refunds of foreign tax in 2011, for example, from the carry back in the US of losses against profits of earlier years ('Net Operating Losses' or NOLs) which are shown on your CTA 1 (2008). For Names with no 2008 account participations, details will be reflected on the CTA 2 (2011). The treatment of these foreign tax refunds depends on how relief was originally given for the foreign tax now being refunded.

### **Foreign Tax Credit Relief**

For refunds of foreign tax where relief was given against UK tax on earlier years' Lloyd's profits, the refund is treated as additional tax chargeable on Lloyd's profits of the tax year corresponding to the calendar year that the refund was received in. Enter any amounts received in 2011 in box 28 or 1L.79. The exchange rate to use is the same rate that was used to calculate the amount of tax credit relief given for the foreign tax in the earlier year, which may differ from the sterling amount actually received in the later year.

Where the refunds are of US tax, the amount is shown in sterling at the correct exchange rate on the CTA 1 (2008). Make sure that you include any figure in box 28 or 1L.79 also in box 13 on the *Tax calculation summary* pages, available from the SA Orderline or at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

If you are working out your tax bill for 2011–12, include the amount in box 28 or 1L.79 in box A265 on the Working Sheet in the *Tax calculation summary notes*. The amount in box A265 also goes to box 13 on the *Tax calculation summary* pages.

### **Relief by deduction**

Where relief for foreign tax was originally given by deduction from Lloyd's profits or losses, any refunds of the tax relieved are added to the Lloyd's income of the year that the refund was received in. Enter any such refunds received in 2011 in box 24 or 1L.58E. No entry is needed in box 28 or 1L.79.

## **Personal stop loss (PSL)**

### **Stop loss insurance**

Stop loss is a type of insurance which provides cover if you make a loss of more than a specified amount in an underwriting year. If you make a loss on your syndicate results, a stop loss policy will pay over to you a certain portion of that loss, called a recovery.

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Premiums paid for these policies are allowed as deductions by reference to the calendar year in which they are paid, regardless of the account or accounts covered by the policy for which the premium is paid.

### ***Stop loss recoveries***

Unlike other non-syndicate income, personal stop loss recoveries are, in general, included in box 22 or 1L.58D as Lloyd's taxable income of the tax year in which the loss that triggered the recovery arises for tax purposes. For instance, a stop loss recovery in respect of a 2008 account loss is taxable in 2011–12 even though you may not receive it until calendar year 2012.

The exception to the general rule is where a recovery becomes payable for the loss of an earlier year and it was not possible to tell us about it in time to include it for the year of loss. In these circumstances, the recovery is taxable in the tax year corresponding to the calendar year in which it was received.

### ***Stop loss repayments***

If, following the recovery, you are compensated in some other way for the loss (for instance, by an award of damages), a stop loss policy requires you to pay back some or all of the recovery. Any repayments made directly to a stop loss insurer are treated in the same way as premiums; a deduction is allowed for the year of payment and should be entered in box 31. There is no adjustment made to the year in which the recovery that is being repaid was taxed.

### ***Failed stop loss insurers***

Should a personal stop loss insurer be unable to meet claims under policies in full, any sum not recoverable is treated for tax purposes as a bad or doubtful debt. Once you can establish that the recovery is unlikely to be paid in full, you need to make an estimate of the amount that is in doubt. For example, a personal stop loss underwriter goes into liquidation. The liquidator issues a statement on 10 April 2011 which shows that only 40% of claims are likely to be paid. The amount you can claim as a deduction will be 60% of the amount still to be paid out under your personal stop loss policy. The deduction is given for the year in which you can establish the debt will not be paid in full, in this case 2011–12. In common with bad debt relief for traders in general, the adjustment is made in the year the debt is established as doubtful, and not by adjusting the taxable profit or loss for the year the amount recoverable was taxed.

If in a later year the amount you expect to recover from your personal stop loss insurer decreases, you can make a further claim to bad debt relief for the reduction in the amount you expect to receive. Similarly, if the amount increases, or you receive more than the amount you expected to receive, the increase or the difference between the amount claimed as a bad debt relief and the amount received should be shown as an addition to profits in that year. Recoveries should be entered at box 22 or 1L.58D, or use box 31 or 1L.71 in the event of additional claims. Please supply details in the 'Any other information' box, box 66 or 1L.92.

## **Capital Gains Tax**

Gains arising on disposal of assets held as part of your personal funds at Lloyd's should be included on the *Capital gains summary* pages of the 2011–12 tax return, following the general guidance notes that go with those pages and more detailed guidance overleaf.

### ***Syndicate capacity***

Gains arising on disposals of syndicate capacity should also be included on the *Capital gains summary* pages. Syndicate capacity can be sold by auction, under a bilateral arrangement, or by capacity offer. Where you have sold syndicate capacity in the 2011 capacity auctions, or entered into other arrangements to sell capacity in the year ended 5 April 2012, the disposal proceeds are the amount received at auction or under the arrangement. Auction fees are allowable as incidental costs of disposal. Your members' agent will supply you with details of the sale proceeds and incidental costs. Note that capacity in each syndicate is a separate asset for Capital Gains Tax purposes except where capacity is held via a Members' Agents Pooling Arrangement (MAPA) (see below).

Where you have been underwriting with the same capacity since before the 1996 account, the cost of your capacity will be nil, because until capacity auctions were introduced in 1995, there was no charge for capacity.

The entrance or admission fee which is payable on joining Lloyd's is not allowed as a deduction from trading profits. But it can be deducted from gains on disposal of syndicate capacity, as an incidental cost of disposal in the year the Name resigns membership of Lloyd's.

Where syndicates merge and you exchange this year's capacity in one syndicate for capacity for the following year in a syndicate with a different number, provided no cash changes hands, this is not regarded as a chargeable occasion for Capital Gains Tax purposes. When you sell capacity in the new merged syndicate, the cost of acquisition is the cost to you of capacity in your original, pre-merger syndicate.

The Capital Gains Tax rules for MAPA members changed with effect from 6 April 1999. (The new rules were set out in a Lloyd's Market Bulletin dated 6 September 1999. Copies are available from Lloyd's tax department.) From that date, all syndicate capacity held by an individual member through a MAPA is treated as if it were a single asset. Any capacity held through one MAPA is treated separately from capacity held through another MAPA, or capacity held directly.

If you receive a cash distribution from your MAPA operator, that is a disposal or part disposal of the capacity held through the MAPA and should be reported on the *Capital gains summary* pages. If you transfer syndicate capacity into or out of a MAPA, that is also a Capital Gains Tax disposal, and should be reported on the *Capital gains summary* pages.

Where you have transferred capacity to a corporate member of Lloyd's as part of a scheme to convert to limited liability underwriting, the transfer is a disposal for Capital Gains Tax purposes. In most cases this will be a transfer between connected parties and you will need to use the market value of the capacity at the date of transfer. If you converted to limited liability underwriting through a Nameco, Scottish Limited Partnership or Limited Liability Partnership, you may be able to defer charges to Capital Gains Tax. See below for more details. Where the transfer is to a Scottish Limited Partnership or Limited Liability Partnership, the transfer is not generally regarded as a chargeable occasion – see Statement of Practice D12.

### ***Reliefs***

Roll-over relief allows gains on the disposal of qualifying business assets to be deferred if replacement assets are acquired. With effect from 6 April 1999, gains made on the disposal of syndicate capacity, whether held directly or through a MAPA, will be eligible for roll-over relief. Syndicate capacity also qualifies as a replacement asset if it is acquired on or after 6 April 1999.

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**i** Guidance notes on entrepreneurs' relief are included in the *Capital gains summary notes* and in Helpsheet 275 *Entrepreneurs' Relief*.

The Lloyd's Market Bulletin dated 6 September 1999 explains roll-over relief on syndicate capacity. Copies are available from Lloyd's tax department or the High Net Worth Unit Bradford. If you want to claim this relief, please refer to page CGN 20 of the *Capital gains summary notes* and Helpsheet 290 *Business asset roll-over relief*.

### **Entrepreneurs' Relief**

Entrepreneurs' Relief reduces the rate of tax charged on a disposal of qualifying business assets, which includes the disposal of part of a business. For 2011–12 the Capital Gains rate is 18 per cent or 28 per cent depending on the total amount of your taxable income and gains. However, gains qualifying for Entrepreneurs' Relief are taxable at 10 per cent.

As long as you have met the qualifying conditions throughout a one year qualifying period either up to the date of disposal or the date the business ceased, relief (which is subject to a lifetime limit of £10m of qualifying capital gains for each individual) may be due. However, merely reducing the amount of syndicate capacity available to a Name is unlikely to constitute the disposal of part of the underwriting business, so relief is unlikely to be due on that.

## **Conversion to limited liability underwriting**

Rules introduced in Finance Act 2004 permit converting Names to carry forward unused trading losses and to defer charges to Capital Gains Tax, subject to certain conditions. If you converted to a Nameco, Scottish Limited Partnership or Limited Liability Partnership this legislation may apply to you. For more guidance please refer to the Lloyd's Manual at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

## **Losses**

Please note that the rules for claiming relief for losses arising from membership of Lloyd's are in some ways different from loss relief for trades in general. The information given in Helpsheet 227 *Losses* on claiming relief for trading losses to reduce your taxable profits in earlier years or following cessation, does not apply to losses from membership of Lloyd's. The rules which apply to losses arising from membership of Lloyd's are set out below.

### **Time limits**

Please make your claims within the time limits shown on page 6 for losses in early years of trade and for terminal loss relief, and as shown in Helpsheet 227 for other loss relief claims. Late claims cannot usually be accepted.

### **Losses in early years of trade**

There are special reliefs for losses that arise in the first four years of a business. The general rule is that losses arising in the tax year in which the business commences and the three succeeding tax years, are available for relief. Because of the corresponding year concept that applies to taxing income from membership of Lloyd's, the first year of assessment of your Lloyd's trade is the tax year corresponding to the underwriting year in which you first participated on syndicates.

For example, if you commenced underwriting on 1 January 2009, your first year of assessment is 2009–10. The 'early years of trade' loss relief provisions can apply to losses for 2009–10 and 2010–11 (non-syndicate income and expenditure of year ended 31 December 2009, and 2010 respectively) and 2011–12 and 2012–13 (account 2009 result for 2012–13 only and non-syndicate income and expenses of the years to 31 December 2011 and 2012). You may carry back a loss for any of these

years for relief against other income of the three years of assessment running up to the year of loss, taking income of an earlier year before income of a later year.

### ***Time limits***

The time limit for making claims for this relief for losses arising in 2009–10 expired on 31 January 2012. You have until:

- 31 January 2013 for losses arising in 2010–11
- 31 January 2014 for losses arising in 2011–12
- 31 January 2015 for losses of 2012–13.

For losses arising in 2011–12, you may claim loss relief by filling in the appropriate boxes on your tax return. For relief against other income of 2011–12, use box 56 or 1L.85. If you are claiming any relief against capital gains for 2011–12, complete box 14 on the *Capital gains summary* pages.

If you are claiming relief against income or capital gains for earlier years, complete box 57 on the *Lloyd's underwriters* pages or 1L.86 on the *Trust and Estate Lloyd's underwriters* pages.

If you are carrying the loss forward against future profits from membership of Lloyd's, complete box 58 or 1L.87 taking into account any losses set against income or capital gains. Make a note of the total loss to carry forward by completing boxes 59 to 62 (*Lloyd's underwriters* pages or in the 'Additional information' box, box 1L.92 of the *Trust and Estate Lloyd's underwriters* pages).

### ***Cessation***

The usual rule is that the final year of assessment for profits from membership of Lloyd's is the tax year corresponding to the calendar year in which the deposit is repaid. However, for both deceased and surviving Names, there may be circumstances in which the last open syndicate year of account closes, or membership of Lloyd's continues, after the deposit is released. In such cases, the Name is treated as ceasing to trade as a Name in the later of:

- the underwriting year after the year in which the Name's last syndicate open year of account closes, or
- the underwriting year in which the Name's membership of Lloyd's terminates under the rules or practice of Lloyd's.

Please see the following sections for more information on cessation. If you are in doubt as to the final year of trading please contact the High Net Worth Unit Bradford.

### ***Loss reliefs on cessation (terminal loss relief)***

Terminal loss relief is an alternative to the ordinary ways in which losses can be relieved but you must make sure that you do not claim the same loss twice. If you have already claimed some part of the terminal loss, then you must reduce the terminal loss by the amount of relief that you have already claimed.

For ceasing members of Lloyd's, the loss available for terminal loss relief is the loss of the final tax year for which there were syndicate results included in the computation. If your final syndicate results were declared in 2011 (2008 account and/or run-offs to 31 December 2010), the loss of 2011–12 is used for terminal loss relief purposes.

Your terminal loss must be set against any profits (after deducting losses brought forward) from membership of Lloyd's taxed in the previous tax year – in the above example, 2010–11. Once these have been reduced to nil, any balance of the terminal loss must be set against profits taxed in the

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preceding year, 2009–10. Finally, if there is still a balance, this must be set against the Lloyd's profits taxed in 2008–09.

Because of the special way in which this relief works for Names, in some circumstances the terminal loss may not be the loss of the final year of assessment. For example, where the final syndicate results are declared in 2011 but the deposit is released in January 2012 – the loss for terminal loss relief purposes is that of 2011–12 but the final year of assessment will be 2012–13.

You do not need to wait until you are ready to send your completed tax return to claim terminal loss relief. You can claim relief as soon as you know the amount of the loss, usually once you have had the tax adjusted results for 2011–12 sent to you by Lloyd's Market Services at Chatham on CTA 1 (2008) and the CTA 2 (2011). You may write a letter saying that you wish to claim terminal loss relief showing the date of cessation of trade (which for terminal loss relief purposes for members of Lloyd's is 5 April of the tax year in which the final open syndicate results are assessed – in the example quoted above, 5 April 2012) and details of the amount of the loss.

## **Relief for members who have been underwriting since before 1972**

For Names who have been underwriting members of Lloyd's for the 1971 account or earlier and have underwritten continuously since then, special relief at cessation of underwriting is available to compensate for any double counting of profits that may have arisen from the change in basis of assessing profits from membership of Lloyd's brought in for 1972–73 and subsequent years. The High Net Worth Unit Bradford have maintained records of the amount of relief that may be available under this provision, so please contact them for advice should you be in this position.

## **Special Reserve Funds (SRF)**

These funds can be set up by individual (unlimited liability) Names under Section 175 Finance Act 1993. Personal representatives of deceased members may not set up Special Reserve Funds.

If you have a Special Reserve Fund, you may transfer up to half the aggregate of your commercial (not your tax adjusted) syndicate profits for any account into your fund. If the aggregate syndicate result is a loss, you must withdraw sufficient from the fund to meet the loss.

When the value of assets in the fund exceeds 50 per cent of the higher of:

- your overall premium limit, or
- your overall premium limit for the previous year

any balance is returned to you as taxable income. Transfers to and withdrawals from the fund also happen when there are cash calls, stop loss recoveries and on cessation.

If you have such a fund, you will need to complete the entries in the *Lloyd's underwriters* pages for transfers into and withdrawals from the fund. Lloyd's Market Services at Chatham report the net transfer to your fund for each tax year on the relevant Taxation Advice. Net withdrawals from a Special Reserve Fund should be shown in box 21 or 1L.58C, and net transfers to such a fund in box 30 or 1L.68A.

### ***Time limits***

Transfers from account 2008 profits to a Special Reserve Fund must be made on or before the date on which any profits were paid over to you and transfers must in all cases have been completed by 31 October 2011.



### ***Releases from Special Reserve Fund on cessation***

For Names who have ceased, the balance of the fund is taxed as trading income of the final year that Lloyd's results are assessable on the Name personally. For surviving Names, this will be the final year of assessment of the trade, but may be different for deceased Names – full details are given in the *Notes on Trust and Estate Lloyd's underwriters*. Lloyd's Market Services at Chatham will issue a certificate valuing the release to be assessed.

If details are not available, enter in box 21 or 1L.58C an estimate based on the value of remaining funds and make a note of the adjustments in the 'Any other information' box, box 66 or 1L.92.

### **Death**

The tax return to be filled in by personal representatives of deceased Names depends on the date the Name died. Complete the *Lloyd's underwriters* pages for each of the calendar years up to and including that ending on 31 December preceding the date of death.

For calendar years commencing with 1 January of the year in which death occurred, complete the *Trust and Estate Lloyd's underwriters* pages. This helpsheet gives additional information for both types of Lloyd's pages. Please read the reference to 'you' as including a personal representative where appropriate. Full details of the rules for cessation, final year of assessment and so on, are explained in the *Notes on Trust and Estate Lloyd's underwriters*. Please contact the High Net Worth Unit Bradford if you need help in determining the final year.

### **Exempt amounts**

This applies **only** to Names who are not ordinarily resident and not domiciled in the UK. For these Names, gains and losses on certain types of gilts (FOTRAs) held in syndicate premiums trust funds are not within the charge to UK tax. The gains or losses are shown on the CTA 1 (2008) as 'income exempt to non-UK resident/non-UK domicile'. Positive amounts are allowed as deductions and should be entered in box 39 or 1L.71 as 'other expenses'. Negative amounts should be added to profits for the year by including them in box 25 or 1L.58. Also include details of the adjustments in the 'Any other information' box, box 66 or 1L.92.

### **More information**

Go to [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and look for *Lloyd's Manual* within the Search facility or please write to:

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