



Tax Newsletter

May 2011

Welcome to the first edition of the Argenta Tax & Corporate Services Limited (“ATCSL”) Tax Newsletter. The purpose of this publication is to keep our clients informed of tax issues affecting the Lloyd’s market.

The content of this newsletter is targeted at clients that carry on their underwriting activities through a NameCo vehicle. We have published an equivalent newsletter for those clients that carry on their underwriting activities through a Limited Liability Partnership (“LLP”) or Scottish Limited Partnership (“SLP”).

Corporation Tax

For the 2011/12 tax year the main rate of corporation tax has been reduced to 26% and the small profits rate reduced to 20%. The profit limits are as follows:

Small profits rate on profits between	£0-£300,000
Marginal relief on profits between	£300,001 - £1,500,000
Main rate on profits of	£1,500,001 or more

With UK rates of corporation tax on a downward spiral (the top rate is expected to be 23% by April 2014) and personal tax rates pushing up to a top rate of 50%, there has never been a better time to consider how your participation at Lloyd’s is structured to ensure your tax liabilities are properly managed.

Please speak to your usual contact to explore how ATCSL can help with tax efficient structuring of your underwriting activities and other investments.

Claims Equalisation Reserves

Lloyd’s vehicles operating under LLPs, SLPs and NameCos are able to take advantage of Claims Equalisation Reserves (“CERs”). A CER is a tax deductible reserve, which can be used to spread profits and defer tax liabilities.

Under the *Solvency II* Directive, which is expected to apply to insurers from January 2013, there will be no regulatory requirement for CERs, so they could disappear, resulting in the release of existing reserves which would be subject to tax. The Government is currently consulting with the insurance industry on the future retention of CERs, but it will need a robust justification for their continuation. However, we understand from Her Majesty’s Revenue & Customs (“HMRC”), that, as a worse case, any reserve release is likely to be spread over six years.

The message here is to watch this space for the benefit of CERs going forward.

iXBRL

iXBRL (Inline eXtensible Business Reporting Language) is a web based computer language written specifically for business reporting. For all accounting periods ending after 31 March 2010, HMRC require **all** UK companies (including NameCos!) to submit both corporation returns and accounts online in the iXBRL electronic format. For example, a NameCo with a 31 December 2010 year-end will need to file company accounts and corporation tax returns in an iXBRL format by 31 December 2011. Failure to submit tax returns, computations and accounts in the required format could result in the entire submission being rejected.

HMRC require filings in iXBRL format so they can store information in a database format. This will allow HMRC analysts to run immediate comparatives between year-ends and companies within similar sectors. Statistics and variances will inevitably lead to more directed questions from HMRC.

As you can imagine, this places an extra compliance burden on the taxpayer. The good news is that ATCSL have software solutions that can ensure each of our clients comply with HMRC requirements!

Please speak to your usual contact to learn more about iXBRL and how ATCSL can help you meet HMRC requirements.

Electronic Payment of Corporation Tax

Coupled with the introduction of online filing (iXBRL), from 1 April 2011 companies must make all corporation tax and related payments electronically. Related payments include interest charged on overdue corporation tax and penalties for not filing a Company Tax Return on time.

Penalty Regime

HMRC have imposed a new harsher penalty regime for taxpayers who are not up to date with their affairs. This includes fixed fines for late returns and the potential for daily penalties up to a total of £900 for taxpayers that are only a few months behind on their affairs.

So the message here is keep on top of your tax affairs and ensure information is provided to ATCSL on a timely basis!

Inter-available funds

Post the annual distribution exercise you will need to consider whether to pay a dividend from your NameCo. Alternatively, you might prefer to retain cash in the NameCo in order to release surplus Funds at Lloyd's that are held under the inter-availability scheme. One advantage of this alternative is that cash retained by the NameCo will increase the value of the NameCo shares, which are eligible for 100% Business Property Relief for Inheritance Tax purposes providing the funds are not excessive. The transfer of any FAL stocks and shares to your NameCo will be a Capital Gains Tax ("CGT") event so you should carefully consider the CGT implications before transferring stocks and shares to your NameCo.

You should therefore consider the potential IHT and CGT issues surrounding your inter-available funds and the closure of syndicates. A member of the ATCSL team will be happy to discuss this with you.



Personal Pensions

We are all aware that pension contributions are an important tool in managing annual tax liabilities. If you are under 75 years old, you can contribute to a personal pension plan and qualify for tax relief (at your marginal tax rate) as follows:

- If you have no pensionable earnings, then the maximum premium you may contribute is £3,600 gross (£2,880 net) per year.
- If you have earned income from employment, or self-employment, you (and your employer combined) may contribute up to the lower of £50,000 or 100% of your pensionable income into a personal pension and receive higher rate tax relief (if you are a higher rate taxpayer).

A carry-forward facility has been introduced whereby any unused annual allowance can be carried forward for up to three tax years. The earlier year allowances are used first and for these purposes the annual allowance for 2008/09, 2009/10 and 2010/11 is taken to be £50,000.

The lifetime allowance for 2011/12 is £1.8million but it is planned for this to reduce to £1.5million in 2012/13. Those with pension pots of £1.5million and above or those who believe that their pension pot will increase above this figure without further contributions can elect to preserve the lifetime allowance. Such an election must be made in writing prior to 5 April 2012.

Recent legislation has removed the requirement to buy an annuity by age 75 for those in a defined contribution registered pension scheme. Members are now able to defer the decision indefinitely. These changes will have inheritance tax implications.

Lloyd's Members will be assessed on their 2008 account profit in the 2011/12 tax year. Therefore any pension contributions that are to be deducted against these profits will have to be paid prior to 5 April 2012.

Please note that this is a complex area and we recommend that you seek specialist pension advice.

Inheritance Tax

Most readers will be aware of the availability of inheritance tax "business property relief". At best this relief reduces the taxable value of property to nil for IHT purposes. If you are married or in a civil partnership you should ensure that your Lloyd's assets are not left to the survivor either outright or on "life interest" trusts; if they are, the spouse exemption will effectively override the relief that may well not be available by the time of the second death. Instead they should be left on discretionary trusts that include the survivor in the class of beneficiaries. In that way he or she will be able to benefit from the value of the Lloyd's interests without them forming part of the survivor's IHT estate. If you would like to review the terms of your Will please speak to your usual ATCSL contact.

For further details on the taxation services provided by ATCSL please contact us:

David Powell
Managing Director
Direct tel: 020 7825 7265
E-mail: david.powell@argentapl.com

Stephen Hopwood
Director
Direct tel: 020 7825 7255
E-mail: stephen.hopwood@argentapl.com

Argenta Tax and Corporate Services Limited
Fountain House
130 Fenchurch Street
London
EC3M 5DJ

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.