

FACT SHEET – Captive Insurance Company (CIC)

Reduce taxes, build wealth and improve insurance protection

1. A captive insurance company (CIC) provides insurance to one or more operating businesses in the CIC-owner's “**economic family**”.

2. **Two key tax benefits** enable a structure containing a CIC to build wealth efficiently:

2.1 Insurance premium payments from operating business to CIC are tax deductible; and

2.2 Under IRC 831(b), a CIC can receive up to \$2.65 million of premium payments annually income-tax-free.

In other words, so long as insurance issued by the CIC is reasonable and genuine, up to \$2.65 million of business revenues in the form of deductible insurance premiums can be shifted out of operating businesses into the low-tax CIC. An 831(b) CIC pays taxes only on investment income and gains (no state taxes if formed offshore).

3. Other principal benefits of a CIC include:

- increased control and increased flexibility regarding insurance policies, premium payments, risk management, claims processing, etc.
- insurance of risks for which retail insurance either does not exist or is too expensive
- tax-efficient substitute for self-insurance, i.e., a "rainy day fund" of no-tax dollars
- asset protection, wealth accumulation, wealth transfer

4. **Formation Criteria:**

4.1 Annual gross business revenues of \$2.5 million or more

4.2 Annual total business profits + insurance costs of \$250K or more

5. **Formation, Management, Costs.**

5.1 “**Turnkey**” service includes: initial evaluation, CIC formation, licensing, ongoing management, actuarial analysis, policy underwriting, reinsurance, claims management, auditing, accounting and tax compliance.

5.2 **CIC owner(s) can retain control** of CIC accounts and assets.

5.3 Typical cost of comprehensive turnkey solution, including cost of reinsurance and claim payments: **12–18%** of annual premiums, depending on total premium amount (16–26% in first year). Thus, assuming a typical CIC claims profile, annual CIC **profits** can be **80—90 % of annual premiums** (plus investment income and gains).

5.4 Initial CIC capitalization requirement: 20% of 1st year's premium amount.

Internal Revenue Service Circular 230 Disclosure: As provided for in Treasury regulations, advice (if any) relating to federal taxes that is contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (1) avoiding penalties under the Internal Revenue Code or (2) promoting, marketing or recommending to another party any transaction or matter addressed herein.