

## FACT SHEET – Captive Insurance Company (CIC)

### Improve insurance protection, reduce taxes, and build wealth

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 \$2.2 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 \$2.2 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.
- coverage 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.

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