AHT INSURANCE
A BALDWIN RISK PARTNER

CAPTIVES

# 831(b) MICRO CAPTIVE

## WHAT IS A **CAPTIVE?**

Captive insurance refers to a subsidiary corporation established to provide insurance to the parent company and its affiliates. A captive insurance company represents an option for many organizations, from Fortune 500 companies to nonprofits, that want to take financial control and manage risks by underwriting their own insurance rather than paying premiums to third-party insurers.

**A MICRO-CAPTIVE is a small captive insurance company that may be taxed under Internal Revenue Code 831(b), which provides that a captive qualifying to be taxed as a US insurance company may pay tax on investment income only in any year that its written premium is at or below the threshold for the applicable tax year, which in 2017 was set at $2.2 million or less with the premium cap subject to inflation adjustments.**

Micro-captives became popular because, if a captive is taxed under 831(b) of the Tax Code, it does not pay tax on its underwriting income. It pays income tax only on its investment income. The benefit of this is clear for captives that write risks that have a quick reporting and loss payout profile, such as property insurance. If a captive that pays income tax on its underwriting income issues a high-deductible property policy and has no property losses, the premium paid to a larger captive, less any expenses, will be taxed, as well as tax being paid on any investment income. But, if the gross premium is less than the threshold established under 831(b), only the investment income is taxed. The underwriting profit can either be returned as a shareholder dividend or remain in the captive as surplus. To ensure compliance, refer to the documents linked below.

## **BENEFITS** OF ESTABLISHING A MICRO CAPTIVE:

Establishing a 831(b) micro captive insurance company often provides significant benefits to organizations and risk management professionals. **The advantages of 831(b) micro captives include:**

- Coverage tailored to meet specific needs
- Greater control over claims
- Reduced operating costs
- Control of cash flow
- Funding, underwriting and risk management flexibility
- Possible tax benefits
- Access to the reinsurance market
- Incentive for loss control
- Capture underwriting profit
- Pricing stability
- Investment income
- Potential additional profit center

# IS A MICRO CAPTIVE RIGHT FOR YOUR ORGANIZATION?

**As organizations of all sizes seek to gain greater control over the costs and opportunities of risk management, captive insurance continues to increase in popularity as an alternative or enhancement to purchasing insurance in the traditional marketplace.** Having a RRG gives members more control over risk and litigation management issues while avoiding multiple state filing and licensing requirements. However, when deciding whether to form a RRG, companies need to be able to navigate proof and financial responsibility laws.

The world of captive insurance can be confusing, with so many different structures available, and so many different factors that need to be taken into consideration. Contact the AHT Captive Team to learn if A RRG is right for your organization.

> *IRS Acknowledges 831(b) Captive Insurance Companies Are "A Legitimate Tax Structure"*
> *Read Full Article*

What Every CPA Needs to Know about Captives

Keeping Captives Compliant

Captive Insurance: The Answer to Managing Costs?