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WHAT IS AN 831(b) MICRO CAPTIVE?

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.

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BENEFITS OF ESTABLISHING A SINGLE PARENT CAPTIVE

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.

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IS A MICRO CAPTIVE RIGHT FOR YOUR ORGANIZATION?

As captive insurance continues to increase in popularity as an alternative or enhancement to purchasing insurance in the traditional marketplace, companies need to justify the investments of time and resources needed to form and operate a successful captive insurance company. Contact us to learn if an 831(b) micro captive is right for your business.

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