USE OF CAPTIVE INSURANCE COMPANIES

JANA B. BACON, CPA
MARTIN M. CAINE, CPA

With the high cost of insurance and the inability to purchase certain types of insurance, captive insurance companies have been a topic of discussion lately. While not a new concept, and a strategy used by many types of businesses in a number of industries, rule changes in recent years have made the expanded use of captive insurance companies possible.

The use of a captive insurance company (CIC) is primarily a risk management concept applied to addressing gaps in economically available commercial insurance coverage, which must be the driving force in the decision to form a CIC. There are also certain tax benefits for qualified CICs that make a special election on their federal income tax return. For a bank, a CIC is formed as a subsidiary of a bank holding company, not the bank. Because the rules require greater than fifty percent of homogenous risk exposure derived from third parties (generally at least nine other banks), a contractual relationship with a shared risk pool is involved.

For tax purposes, if the CIC meets the qualifications and makes an IRC Sec 831(b) election, then the bank receives a tax deduction for the premiums paid to the CIC, and the CIC is taxed solely on its investment income and not on the premium income received from the bank.

While the above discussion is brief, CIC arrangements are complex. Some consultants are in the marketplace promoting their use. As clients of Wolf & Company, we are writing this alert to make you aware that CICs are an option for your bank's risk management plan, although they are not suitable for all institutions.

JANA B. BACON, CPA
MEMBER OF THE FIRM
413-726-6854
JBACON@WOLFANDCO.COM

MARTIN M. CAINE, CPA
MEMBER OF THE FIRM
413-726-6852
MCAINE@WOLFANDCO.COM

WOLFANDCO.COM
© 2015 Wolf & Company, P.C.