

Is Micro Captive Insurance Right for Your Business?

Alternative Risk Transfer Strategies with Powerful Tax Benefits

Traditional risk transfer techniques involve purchasing conventional, guaranteed-cost insurance policies. Although this provides effective risk transfer, it offers little control over your claims and rising premium costs. Micro Captives are an effective, efficient and tax advantaged alternative.

Micro Captive Benefits

- ▶ Greater control and management of claims
- ▶ Reduced expenses
- ▶ Provides owners with the profits generated by the insurance program
- ▶ Customized coverage not otherwise available in the standard market
- ▶ Enhances and integrates with existing insurance policies to fill any gaps in coverage
- ▶ Can supplement a Group Captive

What Is a Micro Captive Insurance Company and How Does It Work?

A Micro Captive is a captive insurance company operating with an annual written gross premium of less than \$2.2 million. In the United States, qualified under Internal Revenue Code 831(b), a Micro Captive will pay tax only on investment income and not on underwriting profit. The underwriting profit can either be returned as a dividend or remain in the captive as surplus. The Micro Captive must qualify as an insurance company and serve a business purpose, not merely a tax-reducing purpose.

IRC Section 831(b) provides that:

- ▶ Insurance companies with less than \$2.2 million of annual premium pay \$0 income tax on underwriting profits
- ▶ Investment income is taxed as income to C corporations
- ▶ 831(b) must be timely elected and cannot be revoked without the submission to, and approval by, the Secretary of the Treasury

Tax Benefits

- ▶ Premiums are deductible when paid under IRC Sections §162 and §212
- ▶ Taxation of profits:
 - ▶ Income tax on investment income only
 - ▶ Minimum premium taxes
 - ▶ Dividends are taxed as qualified dividends
 - ▶ Termination surplus (i.e., profits) are taxed as capital gains

Is an 831(b) Micro Captive Your Best Option?

To help determine if a Micro Captive is right for you, Cherry Bekaert Benefits Consulting will perform a full review and actuarial analysis of your current program (including incurred and realized claims). Our certified insurance counselors will deliver a feasibility study that forecasts your risks and potential to capture savings through a Micro Captive plan.

Micro Captive Insurance Company Coverage and Policies

The insurance in a Micro Captive is customized coverage designed to enhance, complement, and integrate with existing insurance policies.

IRC § 831(b) Captive Structure



Examples of Micro Captive Coverage:

- ▶ Everything a Business Currently Self-Insures:
 - ▶ Deductibles
 - ▶ Losses in excess of traditional limits
 - ▶ Environmental Liability
- ▶ Loss of Income as a Result of:
 - ▶ Losing key employee/salesperson
 - ▶ Loss of license/professional risks (professionals)
- ▶ Loss of a key contract (government contractors)
 - ▶ Weather, terrorism, etc.
- ▶ Liability Defense Expenses:
 - ▶ Employee lawsuits (e.g., sexual harassment, wrongful termination, discrimination, etc.)
 - ▶ Professional claims

Examples of Micro Captive Policies:

- ▶ Professional Liability Gap Coverage
- ▶ HIPAA/Billing Audit Liability
- ▶ Contractual Liability
- ▶ Cyber Liability
- ▶ Environmental Liability
- ▶ Excess Environmental Liability
- ▶ Labor Shortage/Strike Loss
- ▶ Reimbursement:
 - ▶ Employment Practices
 - ▶ Employee Dishonesty
 - ▶ Patent Infringement/Intellectual
- ▶ Property & Liability:
 - ▶ General Liability Gap
 - ▶ Property Management Professional
 - ▶ Professional Misconduct
 - ▶ Product Recall
 - ▶ FDA Administrative Actions Liability
 - ▶ Product Liability Gap
 - ▶ Directors and Officers Liability
 - ▶ Punitive Damages
 - ▶ Loss of Key Employee
 - ▶ Wind Deductibles on Property

Let us be your guide forward



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Take Control and Increase Your Bottom Line with an 831(b) Micro Captive

Contact Kyle Frigon at 404.733.3256 or kfrigon@cherrybekaertbenefits.com to learn more about the lower costs, broader coverage and greater control that can be yours with Micro Captive Insurance.