Capstone Associated
Captive Insurance Planning
For The Middle Market

What is a Captive Insurance Company?

The Feldman Law Firm LLP

A captive is a small property and casualty insurance company usually formed by a business owner to provide property and casualty insurance for the related businesses. The policies may either supplement or replace existing conventional coverages. Often the captive is best used for unique, industry specific coverages not readily available in the conventional markets.

Under Section 831(b) of the Internal Revenue Code where annual premiums are less than$1.2 million a year, the underwriting profits of the insurer are federal income tax exempt.

Over the years, IRS tax guidance and numerous court rulings have established the parameters wherein tax compliant captives operate. Statutory authority plus IRS rulings and various judicial decisions make this an ideal time for closely-held businesses to consider a captive.

A CAPTIVE PROVIDES A NUMBER OF ADVANTAGES FOR A BUSINESS, INCLUDING:

- **Insure Hidden Risks.**

  Most business owners unknowingly self-insure a large amount of risk. With a captive, self-insured, under-insured and un-insured risks can be converted into tax-deductible premiums that are paid to your captive.

- **Reduce Costs, Capture Underwriting Profit.**

  Typically, a large percentage of premiums paid to a commercial insurer goes to litigation costs, marketing, overhead and profit. By supplementing or replacing a portion of conventional coverages, a captive can cost effectively mitigate risks.

- **Wealth Accumulation/Asset Protection.**

  Captives are one of the better asset protection tools available. Designed correctly, assets in a captive are difficult for the operating company's creditors to reach. Captives also provide significant estate planning benefits.

- **Own Your Own Financial Institution.**

  There are wide ranging benefits associated with owning your own regulated financial institution which can loan money and make investments with its own capital.

IMPROVE RISK MANAGEMENT

- Customize Policies
- Increased Breadth of Coverage
- Greater Control of Collecting on Claims

REDUCE INSURANCE COSTS

- Stabilize Pricing
- Manage Deductibles
- Retain Premium Dollars

INCREASE CASH FLOW

- Earn Investment Income
- Retain Underwriting Profits
- Tax Advantaged Financing of Future Losses

Planning Opportunities With A Captive

- **Insurance Reserves:** Protect the business through customized insurance policies against otherwise uninsured or under insured exposures or exposures for which conventional policies are not readily available.
- **Deferred Comp:** Compensate key executives and avoid ERISA issues through their ownership of the captive, incentivising key employees to implement loss mitigation.
- **Life Insurance:** Use pretax dollars in the captive to purchase life insurance as one of a diversified pool of investments.
- **Buy Out Partners:** Buy out partners using captive assets.
- **Finance Purchases:** Use the captive's assets to make or finance investments.

Optimal Candidates for A Captive Include:

- Business clients with a significant operating business or professional risk, with a minimum of $1 million/year in taxable income should consider this planning.
- Physician groups.
- Other professional groups such as engineering, law and accounting firms.
- Real estate developers, home builders, and contractors.

Simplified Ownership Structure for a Captive Insurance Company