

Contact

Houston

1200 Smith Street, Suite 1400
Houston, Texas 77002-4310
Tel: 713.658.1818
Fax: 713.658.2553

Atlanta

191 Peachtree Street, N.E.,
Forty-Sixth Floor
Atlanta, Georgia 30303
Tel: 404.659.1410
Fax: 404.659.1852

Philadelphia

50 South 16th Street, Suite
1700
Philadelphia, PA 19102
Tel: 610.772.2300
Fax: 610.772.2305

San Antonio

112 East Pecan Street, Suite
1450
San Antonio, Texas 78205
Tel: 210.253.8383
Fax: 210.253.8384

Captive Investments Scrutinized Following Key Tax Court Ruling, Business Insurance

January 12, 2018

In an article published in the January issue of Business Insurance, Phil Karter and Katherine Jordan discuss a particular aspect of micro captive transactions that has attracted unwanted IRS attention, namely the investment by micro captives of surplus capital in company-owned life insurance ("COLI"). The authors conclude that captive investments in life insurance should not be treated any differently than captive investments in various other types of appreciating assets, assuming the investments meet the requirements imposed on insurance companies by the jurisdiction in which they operate.

Karter and Jordan explain that the recent arguments the IRS has raised that COLI investments call into question the legitimacy of the underlying captive arrangement are groundless and that there is no basis for the IRS to create artificial distinctions between captive investments in life insurance as opposed to other investment assets. The authors conclude that taxpayers engaging in micro captive transactions should remain confident that well-documented captive arrangements covering bona-fide insurable risks should be respected in most situations irrespective of whether the captive has COLI investments or not.

The article is available to online subscribers at <http://www.businessinsurance.com/>.