

## **Case Study:** **Captive Insurance Company (CIC)**

### **Concept:**

A captive is an insurance company which provides Property and Casualty coverage for a limited number of clients/insureds. It is generally established to allow the business owner to control insurance costs or to obtain coverage which may not be available in the marketplace at reasonable pricing.

Premiums paid to a CIC allow the client to further manage business risk on a tax-deductible basis.

Premiums paid to the CIC from the parent company should be tax deductible. Underwriting profits and surplus accumulation are tax-exempt. Investment income is taxable.

### **Client Profile:**

Craig is a successful spine surgeon with gross revenues exceeding \$8 million annually. His practice is an S corporation. All net income flow through to his personal income tax return. Craig's combined federal and state tax rate is approximately 40%.

Craig wanted to reduce his exposure and mitigate his income tax liability. Craig was also concerned about his potential estate tax liability as his business continues to grow.

### **Collaborative Design:**

After a feasibility study, the actuary and captive manager identified significant exposures to warrant a premium to the captive of \$500,000. Since Craig was concerned about the numerous risks his business faced such as professional license, reputational damage, and other enterprise risks, the captive policy supplemented Craig's existing property and casualty coverage.

With the help of his tax advisors and legal counsel, Craig established the CIC inside an irrevocable trust naming his children as beneficiaries. A life insurance policy was purchased leveraging assets inside the CIC to create the estate liquidity to pay estate taxes upon his death.

### **Result:**

Annual \$500,000 tax deductible contributions to the CIC. Income Tax savings of \$200,000 (@40% tax rate) annually. All CIC assets (premiums and growth) are protected from future estate tax liability. The life insurance creates a tax free benefit to pay future estate taxes.