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831(b) captives make IRS Dirty Dozen tax scam list

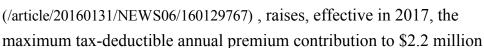
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Even with recent legislative changes, 831(b) captive insurers have, for the second year in a row, ended up on the latest IRS annual Dirty Dozen list of "tax scams."

Through the end of this year, parents of 831(b) captives can make up to \$1.2 million in tax-deductible premium contributions to the captives each year, and such captives' underwriting income is exempt from federal taxes.Legislation passed last year



but imposes new limits on how much in 831(b) written premiums can come from any one policyholder. The IRS, in a Tuesday news release, said premiums paid by 831(b) captive owners may be double or triple the premiums the owners were paying for the same coverage purchased from commercial insurers, or the owners may pay premiums to the captives for "esoteric, implausible risks." The motive, the IRS said, for such underwriting practices: maximum policyholders-owners' tax deductions to reduce their taxable incomes. In such situations, "Underwriting and actuarial substantiation for the insurance premiums are either absent or illusory," the IRS said.

