

Abusive Small Captive Insurance Companies Added to IRS "Dirty Dozen Tax Scams"

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For the first time, the Internal Revenue Service (IRS) has included certain small captive insurance companies (CICs) in its annual list of "Dirty Dozen Tax Scams." On February 3, 2015, the IRS released IR-2015-19, which identified the use of abusive small CICs as one of this year's "Dirty Dozen." The release contains a specific discussion of abusive small CICs and lists several facts that the IRS believes are indicative of abuse.

The insured owners of a small CIC can pay up to \$1.2 million of deductible premiums to their small CIC each taxable year. Under section 831(b) of the Internal Revenue Code, small CICs can exclude the premiums received from income and pay tax only on investment income. The IRS release acknowledges that small CICs are a "legitimate tax structure." However, the IRS has identified small CICs as a structure that might be implemented abusively. Moreover, the IRS is focusing on CICs in income tax examinations relating to the deductibility of premiums paid to CICs.

Caplin & Drysdale's [Tax Controversies Group](#) has broad experience advising and representing businesses in examinations of CICs and small CICs. If you have questions concerning this Alert, please contact:

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