

What are 831(b) Captives?

A Captive is a privately held insurance company that insures a business. It issues policies, collects premiums, and pays claims just like a commercial insurer, but does not offer insurance to the public.

Historically, Captives were only for large corporations. 80% of the S&P 500 utilize Captive insurance programs. IRC section 831(b) was designed to encourage the formation of new insurance companies through favorable tax provisions. The 831(b) or "Small Property & Casualty Captive" now allows middle-market and family businesses to take advantage of the benefits associated with privately held insurance company ownership.

Primary Captive Benefits

When properly employed, Captive insurance companies offer businesses a variety of helpful benefits. First and foremost, a Captive is the ultimate risk management tool. It can replace the need to self-insure for most unique liabilities not covered by traditional P&C policies. Furthermore, Captives offer tremendous financial opportunities:

- better manage insurance costs
- control claims
- pay claims with pre-tax dollars
- deduct Captive premiums from taxes
- accumulate underwriting profits
- distribute profits as dividends
- claim dividends as capital gains (rather than ordinary income)
- transfer wealth to future generations outside of personal estates