Closely-Held Insurance Company:

A Risk Management Tool With *Significant* Tax Advantages

Concept

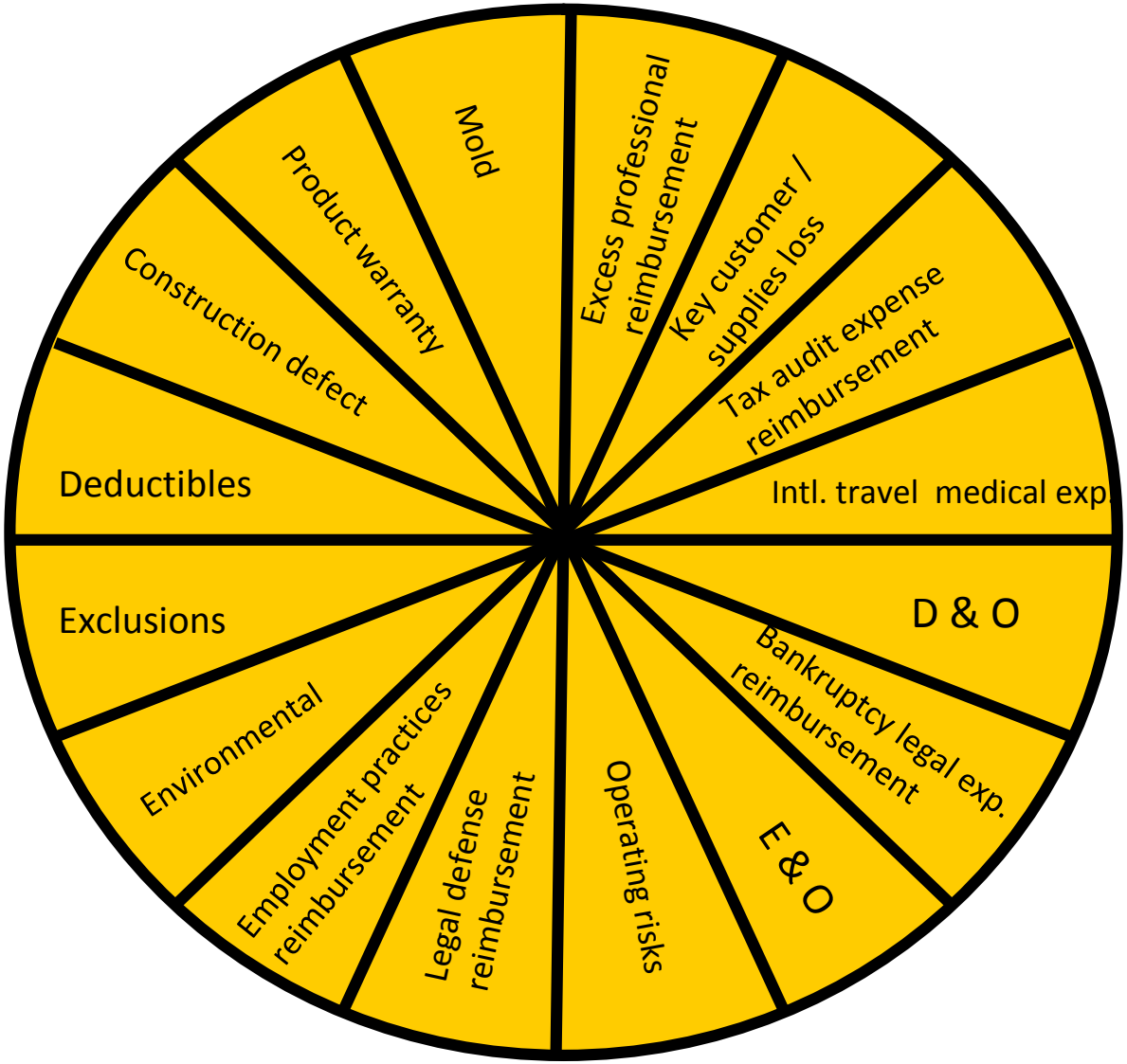
1. Identify insurable business/investment risk
2. Establish “captive” P&C insurance company
3. Pay premiums from operating entity to CHIC
4. Deduct premium from operating income
5. Avoids/defer tax on CHIC income

Coverage Requirements

- Bona fide risk sharing
- Bona fide insurance coverage
- “Full” CHIC: Up to $1.2M premium
- “Unitized” CHIC: Divide $1.2M into “units”

80% of S&P 500 firms utilize CHICs

Potential Coverages



CHIC Tax Treatment

- CHIC elects treatment under Section 831(b)
- CHIC pays *no* tax on premium income
- CHIC pays tax *only* on investment income (typically invest reserves in insurance/annuities)
- At termination, net proceeds taxed as capital gain

Supplement Retirement Savings

Qualified Plan	CHIC
Deductible contributions	Deductible contributions
Contribution limits	None
Penalty for early withdrawal	None
RMDs	None
Nondiscrimination rules	None
Proceeds = ordinary income	Proceeds = capital gain

Estate Planning Tool

- Designate heirs as CHIC owners
- Premiums don’t affect unified credit/annual exclusion
- Proceeds not subject to estate/inheritance tax
- Distributions still taxed as capital gain