



IRS Withdraws Proposed Rules Change for Captives

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Paul Frank + Collins attorney Christopher Leff was delighted to learn that the IRS is withdrawing the changes it had proposed regarding the taxation of captive insurance companies. In October 2007, Leff wrote an article outlining the intent of the proposed new regulations and their potential to negatively impact the captive insurance industry. The proposed IRS changes would have imposed unfavorable tax treatment on captives that insure risks of sibling corporations within a consolidated group. Had the regulations been finalized, they would have had a dramatic impact on the taxation of a significant number of captive insurance arrangements.

In Vermont, where captive insurance is a multi-billion dollar industry accounting for more than 1400 high-paying jobs in the state, the proposed rules change raised considerable concern. All three members of Vermont's congressional delegation decried the proposed changes, as did Vermont's governor, James Douglas. Captive insurance professionals feared that the proposed regulations would make Vermont, the third largest captive domicile in the world, less attractive to new captives and more likely to lose some of its existing captive business.

"This is great news for anyone considering implementation of a new captive arrangement within a consolidated group," said Leff. "Withdrawal of the proposed regulation removes a significant roadblock deterring creation of new captives in that context." Paul Frank + Collins has a considerable stake in Vermont's captive industry. A significant part of its client base consists of captives domiciled in Vermont and elsewhere. Over the years, the firm has played a role in drafting and prompting key pieces of captive legislation in Vermont.