831(b)
CAPTIVE INSURANCE COMPANY PRESENTATION

Presented by

The Taft Companies

What is a Small Captive Insurance Company?

Internal Revenue Code 831(b) provides a very powerful tax advantage through small insurance companies (captives) to provide them additional financial resources to pay claims. This advantage assumes insurance tax treatment (as opposed to deposit accounting tax treatment) for the premiums paid to the company and assumes that legitimate risk is being transferred.

IRC Section 831(b) allows for a captive insurance company to elect to be taxed only on its investment income. Under this structure the significant advantage is that the captive is able to accumulate surplus from underwriting profits free from tax.

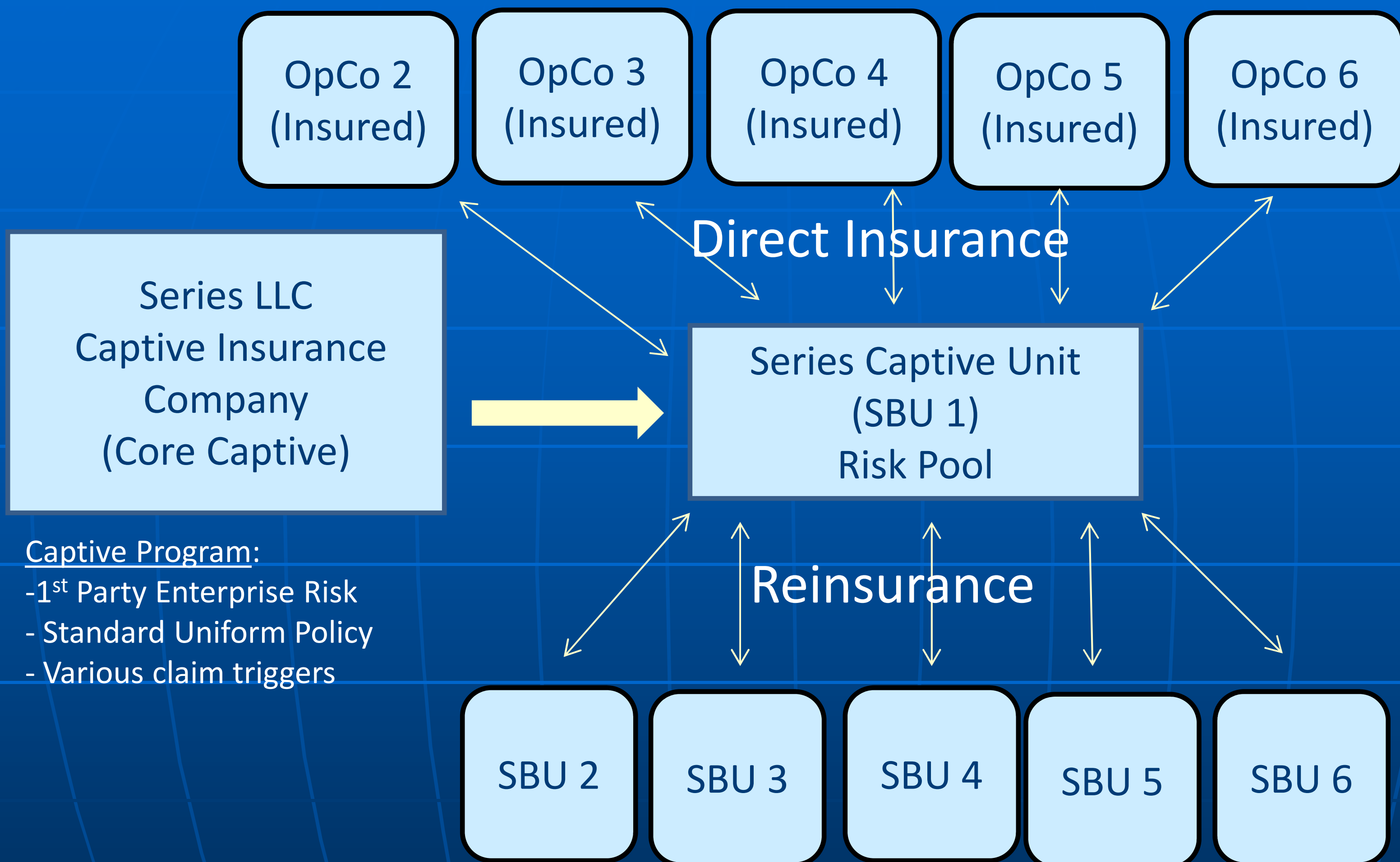
831(b) BENEFITS

- Allows a privately owned company to cover business risk(s) on a tax-deductible basis with coverage that is not normally available within the traditional insurance marketplace.
- Earned premium accumulates on a tax-free basis (only investment income is taxable as ordinary income).
- Annual paid premium range allowed under section 831(b) is flexible. (minimum paid in premium: 0, annual maximum paid in premium: $1.2 million) This flexibility allows the captive insured(s) the ability to allocate premium levels to be paid in, or not, annually.
- Coverages may be modified, rewritten, or non-renewed on an annual basis at the insured's discretion.
- An 831(b) captive insurance company structures may be used, as examples, for estate planning, company perpetuation, key employee benefit/compensation package purposes or even balance sheet risk(s) funding.
- Dividends may be declared to captive owner(s) on an annual basis, which are taxed at the prevailing capital gains rate.
- Life and annuity products are regulatoraly acceptable investment vehicles, as well as qualified for the captive's required capital and surplus.

Recap

- Premiums paid by insured(s) are tax deductible.
- Underwriting profits accumulate tax free within the captive.
- Investment income is taxed only.
- Dividends paid are taxed at prevailing capital gains rate.

Series LLC Captive
Structural Design



Captive Program:
-1st Party Enterprise Risk
- Standard Uniform Policy
- Various claim triggers

*Notes:

- *SBU 1* owned by Core Captive
- *SBU 1 Risk Pool* acts as issuing carrier
- *SBU's 2-6* may be owned by individuals, trusts or LLC's
- unlimited number of SBU's may be added