

Captive insurance update



ITB 09-67: H.R. 3301: Proposal to raise the alternative tax liability limitation for small property & casualty insurance companies

August 18, 2009

Alert 09-04

Representatives Earl Pomeroy, D-ND, and Paul Ryan, R-WI, recently proposed legislation, H.R. 3301, that would amend the Internal Revenue Code of 1986 (the Code) to increase the alternative tax liability limitation for small property and casualty (P&C) insurance companies.

If passed, the proposed legislation would raise the alternative tax liability limitation for small P&C companies, from \$1.2 million to \$2.025 million. Under current law, only when a P&C company goes over a \$1.2 million threshold does it become fully taxable. If the P&C company is under the \$1.2 million threshold, the company can elect to be taxed on its net investment income instead of being fully taxable. Investment income is taxed at the base rate of 15 percent.

In addition, Section 831(b) of the Code would be amended by adding a new "Inflation Adjustment" subparagraph. In the case of any taxable year beginning in a calendar year after 2010, the proposed legislation would amend the Code to tie tax increases to an annual cost-of-living adjustment.

The amendments made by this proposed legislation would apply to taxable years beginning after December 31, 2009.

PwC Observations

The alternative tax liability limitation has not been raised since 1986. Similar legislation has previously been introduced in both the House and the Senate.

Please consult your PricewaterhouseCoopers tax adviser or Rick Irvine at (441) 299-7136 and Laurie Bailey at (441) 299-7104 for further information or guidance.

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