



The Importance of Economic Substance in a Risk Management Plan

In a recent petition to Tax Court made public on September 4th, GS Manufacturing said the IRS erroneously denied deductions for premium paid to its captive insurance companies. The IRS notified GS Manufacturing in June of 2014 that insurance premiums paid by GS Manufacturing to its captive insurers, in a captive insurance program designed by Alta Holdings, lacked economic substance.

The lack of economic substance in a risk management plan can potentially be related to a lack of risk distribution and risk transfer. Here at Oxford, our policies are designed with the element of first dollar risk, with no floors or layers built into the risk distribution structure. Additionally, proper documentation of business purpose to implement a risk management plan and the utilization of an independent actuarial firm further solidifies the economic substance of the Oxford program.