



January 14, 2015

Subject: Summary of IRS review of Series Captive member and Oxford structure

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The random audit was conducted by the Large Business & International (LBI) Division of the IRS. The audits in this division are conducted by senior IRS auditors, usually with more than 10 years of audit experience. The LBI Agent worked in collaboration with the Group Manager on the captive insurance review. The Group Manager had captive insurance experience and was instrumental in directing the questions for the Information Document Requests (IDRs).

The key questions submitted via the IDRs were:

- Explain the organizational structure of the captive insurance company.
- Who is the owner of the client Series?
 - Is 2012 the first year the client acquired insurance from the insurance company? Prior to creation of the captive, what company provided the client similar coverage? Was the cost of the coverage similar?
 - Why did the client decide to use a captive? Why was it a better alternative? Was a feasibility/actuarial study obtained?
- What type of coverage is provided under the policy?
- Provide a copy of the premium invoices and the insurance policy.
- How were the risks insured by the captive insured in the past?
 - If no policy existed for the risks in the past, why? Why is the client now interested in insuring against these risks?
 - What due diligence did the client do to determine those risks should be insured and what might the insurance coverage cost in the marketplace?
- What information was provided to the captive insurer; i.e., was a history of losses provided?



- Who introduced the captive insurance solution to the client? What marketing materials were provided to the client to sell them on the idea of a captive insurance company?

-How are claims calculated and risk distributed? What claims were filed in the risk pool?

Oxford provided written responses to the above questions in addition to providing the following documents for review:

1. Series Agreement
2. Subscription Agreement
3. Application for Admission to Delaware
4. Certificate of Authority
5. 2012 Form 1120-PC
6. Insurance Policy
7. Reinsurance Agreement
8. Premium Invoice
9. Tax Opinion
10. Actuarial Feasibility Study
11. Business Plan
12. A reference to the Oxford Risk Management Website

The audit responses were coordinated through the client's CPA Firm, which is a large regional firm based in the Mid-Atlantic and Southeast. The CPA Firm confirmed with Oxford that the agent has accepted the captive insurance premium as a deduction pursuant to IRC Code Section 162 and closed the captive insurance review audit as a no-change.