
HOUSE CONCURRENT RESOLUTION

OPPOSING THE PROPOSED AMENDMENT TO INTERNAL REVENUE SERVICE
REGULATIONS ELIMINATING THE DEDUCTIBILITY OF CAPTIVE
INSURANCE COMPANY RESERVES.

1 WHEREAS, the cost of insurance is one of the largest single
2 business expenses, prompting an increasing number of
3 corporations to establish insurance subsidiaries within their
4 corporate framework, known as captive insurance companies; and
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6 WHEREAS, many captive insurance companies were established
7 offshore to maximize their operational flexibility and the use
8 of financial incentives; and
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10 WHEREAS, the corporate parents soon recognized that
11 managing insurance subsidiaries with ineffective, minimal, or no
12 regulatory oversight could lead to damaging financial
13 consequences; and
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15 WHEREAS, individual states have realized that the captive
16 insurance industry, if offered a comprehensive, cooperative, and
17 reasonable regulatory environment, can be persuaded to base its
18 companies in their respective states along with the employees
19 required to manage its operations; and
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21 WHEREAS, beginning in the early 1980s, individual states
22 have adopted laws and administrative rules that establish a
23 secure and helpful regulatory environment for the captive
24 insurance industry; and
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26 WHEREAS, the captive insurance industry has brought many
27 jobs to the states that have extended an invitation of welcome;
28 and
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30 WHEREAS, an additional incentive for captive insurance
31 companies to be organized in the United States has been their



1 ability, in accordance with Internal Revenue Service regulatory
2 section 1.502, to deduct the interest accrued from deposited
3 cash reserves from their annual corporate income tax payments;
4 and

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6 WHEREAS, these reserves represent the funds that captive
7 insurance companies maintain on deposit to pay claims that may
8 arise; and

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10 WHEREAS, on September 28, 2007, the Internal Revenue
11 Service published proposed amendments to section 1.502 of its
12 regulations that would eliminate the deductibility of cash
13 reserves that belong to captive insurance companies; and

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15 WHEREAS, under the proposed rule amendment, captive
16 insurance companies will be defined as insurance companies in
17 which more than five per cent of the insured companies are
18 groups under a common corporate umbrella and all captive
19 insurance companies legally domiciled in the United States will
20 be subject to the amended federal tax rule; and

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22 WHEREAS, the termination of the federal income tax
23 deduction will drive the captive insurance companies from the
24 United States and back to offshore locations, including Bermuda
25 and the Cayman Islands; and

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27 WHEREAS, this proposed change in federal tax regulations
28 will have a significant impact on the insurance industry and
29 will push the captive insurers into less hospitable and reliable
30 regulatory environments; now, therefore,

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32 BE IT RESOLVED by the House of Representatives of the
33 Twenty-fourth Legislature of the State of Hawaii, Regular
34 Session of 2008, the Senate concurring, that the Legislature
35 urges the Internal Revenue Service not to adopt the proposed
36 amendments to section 1.502 of the federal tax regulations; and

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38 BE IT FURTHER RESOLVED that certified copies of this
39 Concurrent Resolution be transmitted to the members of Hawaii's



