
HOUSE 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
32 ability, in accordance with Internal Revenue Service regulatory
33 section 1.502, to deduct the interest accrued from deposited



1 cash reserves from their annual corporate income tax payments;
2 and

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

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

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


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

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

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

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36 BE IT FURTHER RESOLVED that certified copies of this
37 Resolution be transmitted to the members of Hawaii's
38 congressional delegation, the Acting Commissioner of the
39 Internal Revenue Service, and the state Insurance Commissioner.

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OFFERED BY: 

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