

---

---

# 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  
5

6           WHEREAS, many captive insurance companies were established  
7 offshore to maximize their operational flexibility and the use  
8 of financial incentives; and  
9

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  
14

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  
20

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  
25

26           WHEREAS, the captive insurance industry has brought many  
27 jobs to the states that have extended an invitation of welcome;  
28 and  
29

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

3  
4 WHEREAS, these reserves represent the funds that captive  
5 insurance companies maintain on deposit to pay claims that may  
6 arise; and

7  
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

12  
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

19  
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

24  
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,

29  
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

35  
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.

40  
41  
42

OFFERED BY: 

FEB 06 2008

