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Tax Court Invalidates a Micro-Captive Arrangement and Denies Taxpayers’ Deductions for Captive Insurance Premiums

The U.S. Tax Court determined that taxpayers’ arrangement with related entities did not involve “insurance” for federal tax purposes and thus denied taxpayers’ deductions for amounts paid to such entities to insure taxpayers’ jewelry stores. The Tax Court found that, although the related entity (i) issued several types of insurance policies; (ii) was regulated and organized as an insurance company; (iii) paid claims filed against it; and (iv) met the capitalization requirements of St. Kitts, its place of incorporation, the entity (i) did

not adequately distribute its risk; (ii) issued policies with unclear and contradictory terms; and (iii) charged unreasonable premiums. The Tax Court held that, since the entity's policies were not contracts for insurance, (i) the entity's elections to be treated as a domestic corporation and to be taxed as a small insurance company were invalid and (ii) taxpayers' payments to such entity were not deductible as ordinary and necessary business expenses. See *Avrahami v. Commissioner*, 149 T.C. No. 7 (2017).

[View Avrahami v. Commissioner, 149 T.C. No. 7 \(2017\)](#)

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