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Section 831(b) Micro-Captive Insurance
"Self Insured Risk Management with Tax Efficiency"

Executive Summary for Business Owners and their Advisors

Introduction

A Micro-Captive Insurance Company, commonly referred to as a Section 831(b) Captive, is a small insurance company created by a business owner, or group of related businesses, to insure risks of their operating company business. This structure allows the owner to deduct premiums paid, and pay federal income tax only on investment income, not underwriting profits.

The operating business pays insurance premiums to the captive, which in turn provides insurance coverage for specific business risks that may be difficult, expensive, or unavailable in the traditional insurance marketplace. As of 2026, to qualify, annual premiums must not exceed $2.9 million (indexed for inflation)

Key Aspects of 831(b) Captive Insurance

Purpose: They allow business owners to fill gaps in traditional insurance, cover unique business risks, and manage risks in a more tax-efficient manner.
Tax Benefits: Premiums paid into the 831(b) captive are deductible to the operating business, while the captive itself only pays taxes on its investment income, not its underwriting profits (premiums minus claims).
Limitations & Regulation: Proper structure, actuarial support, claims administration, risk shifting, risk distribution, and compliance are essential.They must be bona fide insurance companies with adequate risk distribution (often achieved through pooling).
Key Legal Precedents: Several court cases (e.g., Avrahami v. Commissioner, Syzygy Insurance Co. v. Commissioner) have shaped the landscape, emphasizing the importance of proper actuarial, legal, and operational structure.

Why Businesses Use 831(b)
Risk Mitigation: Protecting the business from risks not covered or too expensive in the commercial market.
Capital Accumulation: Creating a dedicated asset base to fund future potential losses.
Premium Savings: Reducing insurance costs compared to traditional, third-party insurance.

Five Key Takeaways

A Section 831(b) Micro-Captive Insurance Company can serve as a strategic tool for business owners seeking to enhance risk management, control insurance costs, and potentially build capital reserves within a regulated insurance structure.

01 Risk Management for Unique Business Exposures

Captive insurance allows companies to insure risks that traditional insurers may exclude, restrict, or price inefficiently. Examples may include cybersecurity exposure, regulatory risk, supply chain interruption, reputational risk, or specialized operational risks.

02 Potential Tax Efficiency

Premiums paid by the operating company may generally be treated as ordinary and necessary business expenses, while the captive insurer electing Section 831(b) treatment does not pay federal income tax on premium income within annual limits. The captive is taxed primarily on investment earnings.

03 Capital Accumulation & Balance Sheet Strength

If claims are lower than anticipated, insurance reserves accumulate within the captive insurance company. These reserves may be invested and potentially become a long-term financial asset of the business or its owners.

04 Customized Insurance Coverage

A captive allows a business owner to design policies tailored to the company's specific risk exposures, including coverage limits, deductibles, and underwriting terms that may not be available through traditional insurers.

05 Regulatory and Compliance Considerations

Micro-captives must operate as legitimate insurance companies, including actuarially determined premiums, real insurance risk, proper claims administration, and compliance with insurance regulators and the Internal Revenue Service. Improper structures may face regulatory scrutiny.

Features and Benefits of Captive Insurance

- Provides insurance coverage for risks that may be uninsured, underinsured or costly in traditional markets
- Creates a formal enterprise risk management framework for the business
- Potentially stabilizes long-term insurance costs over time
- Allows customized policy design aligned with business operations
- Enables accumulation of insurance reserves within the captive entity and inside a regulated insurance entity
- Offers potential tax efficiency when properly structured and compliant
- May support asset protection and long-term wealth planning and tax benefits strategies for business owners
- Provides greater transparency and control over underwriting and claims decisions

These features may be meaningful when the structure is properly designed, administered, and aligned with the company's actual risk exposures.

How an 831(b) Captive Works

Step 1. The Operating Company pays insurance premiums to the captive insurance company.

Step 2. The Captive Insurance Company provides insurance coverage for defined business risks.

Step 3. If a covered event occurs, the Captive pays claims to the operating company.

Step 4. Remaining reserves are invested and accumulated within the captive insurer.

Important Reminder

The IRS keeps a close watch on these to ensure they are not used for tax evasion. They must be bona fide insurance companies with adequate risk distribution, often achieved through pooling.

Qualification Requirements

According to IRS Notice 2016-66, 831(b) plans must have a legitimate business purpose and not be used to create an "implausible risk" or "illusory" coverage.

How an 831(b) Captive Works

A simplified operating flow for business owners.

Business Owner / Parent Entity
owns the operating company and the captive insurance company

Ownership

Ownership

Operating Company

- Faces defined business risks
- Pays insurance premiums
- Submits claims if a covered loss occurs

Insurance Premiums

Insurance Coverage

Claims Paid

Captive Insurance Company

- Provides insurance coverage for defined business risks
- Collects insurance premiums
- Pays claims for covered losses
- Holds insurance reserves

Remaining Reserves

Captive Reserves & Investments

- Remaining reserves stay in the captive
- Reserves may be invested
- Funds support future covered claims

Micro-captives must operate as legitimate insurance companies, including actuarially determined premiums, real insurance risk, proper claims administration, and compliance with insurance regulators and the Internal Revenue Service.

Traditional Insurance vs. Captive Insurance

A side-by-side comparison for business owners and their advisors.

Feature	Traditional Commercial Insurance	Captive Insurance (831(b))
Insurance Provider	Third-party insurance carrier	Insurance company owned by the business owner
Premium Payments	Paid to outside insurance company	Paid to the captive insurer owned by the business
Control of Policy Terms	Limited flexibility	Customized policy design
Coverage Scope	Standardized coverage	Tailored coverage for unique risks
Risk Retention	Risk transferred to insurer	Risk retained within captive structure
Underwriting Profit	Retained by insurance carrier	Potentially retained within captive
Claims Handling	Controlled by insurer	Controlled by captive insurance company
Premium Pricing	Determined by market conditions	Determined using actuarial analysis
Capital Accumulation	Premiums leave the business permanently	Premiums accumulate as reserves within the captive
Investment of Reserves	Managed by insurance company	Managed by captive insurer
Tax Treatment	Premiums generally deductible to business	Premiums may be deductible; captive may elect Internal Revenue Code Section 831(b) treatment
Strategic Benefit	Basic risk transfer	Risk management + financial planning strategy

Strategic Takeaway
Traditional insurance provides basic risk transfer.
Captive insurance may combine risk management, customized coverage, capital accumulation, and financial planning strategy when properly structured and administered.

Who This Strategy May Be Appropriate For

- Profitable privately held businesses
- Companies with consistent annual profits and strong cash flow
- Businesses with meaningful operational risk exposure
- Owners seeking advanced risk management and capital planning strategies
- Companies spending significant amounts annually on commercial insurance

Who This Strategy May Not Be Appropriate For

- Early-stage or unstable businesses
- Companies without sufficient profits to fund insurance premiums
- Businesses seeking tax benefits without genuine insurance risk
- Owners unwilling to maintain proper insurance governance and compliance standards
- Situations where traditional insurance coverage is already efficient and cost-effective

Conclusion

A Section 831(b) Micro-Captive Insurance Company can serve as a strategic tool for business owners seeking to enhance risk management, control insurance costs, and potentially build capital reserves within a regulated insurance structure.

When implemented correctly and administered in compliance with insurance and tax regulations, captive insurance may become an important component of a company's broader enterprise risk management and financial planning strategy. Because captive insurance structures involve complex insurance, tax, and regulatory considerations, business owners should consult qualified legal, actuarial, tax, and insurance professionals before implementing such a strategy.

Want to Know More? Click below.

- What Is a Micro-Captive?
- Learning Library: A curated collection of resources to help business owners, advisors, and decision-makers understand, implement, and maximize the benefits of 831(b) Plans

Meet the Panorama Financial Group

Panorama Financial Group was founded to give sponsors and financial advisors a panoramic view of the alternative investment landscape. We leverage our broker-dealer infrastructure and extensive network to deliver comprehensive advisory support for sponsors and advisors.

For sponsors, we develop institutional-quality offerings designed for strategic positioning and seamless distribution. For advisors, we provide access to a curated set of alternative investments, independently evaluated through our proprietary diligence process and supported by best-in-class education on structures, products, and industry trends.

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