



# MICRO CAPTIVES

## 2016

### **REDOMESTICATION**

Operating in the right domicile

### **TAXATION**

The key considerations

### **REGULATION**

Keeping compliant

From the publishers of

**CAPTIVE**  
R E V I E W

The *Captive Review* Micro Captives Report comes at a fascinating time for the 831(b) structure. As the level of interest in micro captive solutions increases, so too does the level of regulatory pressure upon them. What has the potential to be a particularly beneficial insurance arrangement also has the potential to create best practice headaches.

US captives are perhaps under more scrutiny than ever before. The IRS' "Dirty Dozen" list took aim at "unscrupulous promoters" and industry members have been intensely encouraged to avoid certain questionable practices. Contributors to this report consider best practice and the role the industry has to play in ridding itself of those bringing it into disrepute.

The competition to be considered the jurisdiction of choice for micro captives is fiercely contested. As such, there's a chance that you stand to benefit from being domiciled elsewhere. This report offers discussion of these potential benefits and why it is important to understand that a micro captive does not have to be a static entity.

This report also includes explanation and analysis of some of the necessary technical issues involved in the operation of a micro captive. Contributors offer insight into the key roles and their responsibilities in a captive. In addition there is explanation as to the vital tax considerations of the 831(b) structure.

Contributors to this edition of *Captive Review's* Micro Captives Report have provided expert insight from their various industry standpoints. From captive managers to legal service providers, the combined thoughts of key industry players are available in this report.

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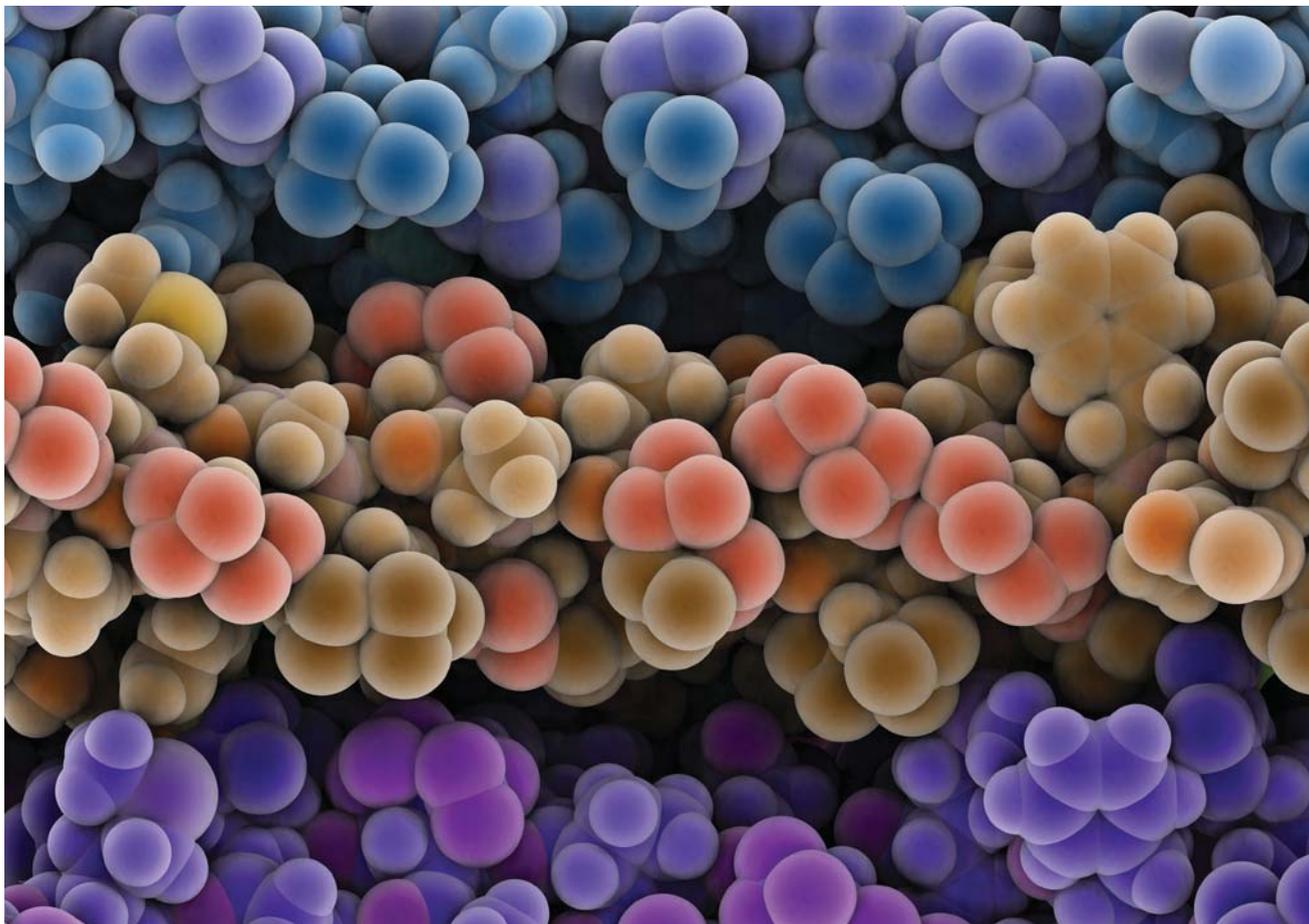
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Published by Pageant Media,  
Thavies Inn House, 3-4 Holborn Circus,  
London, EC1N 2HA

ISSN: 1757-1251 Printed by The Manson Group  
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# WHY WOULD YOU WANT AN AUDIT (OR ROOT CANAL)?

David B. Liptz, Eric M. Weber and Ken McAlpine of HKG LLC explain why, like going for a root canal, getting an audit is worth the pain in the long term

**H**KG was recognised as Best CPA firm for 2015 at this year's *Captive Review* US Service Awards in Vermont. We audit several hundred captives on an annual basis in both a domestic and offshore capacity. We also work in a tax role for our clients and represent them before the IRS and other regulatory bodies. At HKG, our winning strategy is to provide best-in-class technical services to our clients by our team of experienced CPAs – with a personality.

## What should you expect from an audit?

Needing a financial audit can be an experience one can compare to a root canal; it can be painful, uncomfortable and take a lot of time. But once completed, your business, like your teeth, should be in better condition.

An audit provides added value in a number of ways and it offers the peace of mind your organisation needs to succeed. First and foremost, through an audit you obtain an opinion that your financial statements can be relied upon as required by regulators and to make informed decisions.

But it's worth noting that there is also an instructive aspect to an audit in the sense that it can identify opportunities for improvement. Best practice recommendations from your auditor can be incorporated to promote an efficient approach in the area of compliance, improved internal control and efficiencies across the business.

## Why do audits cost so much?

This isn't an issue isolated only to captive insurance audits; all industries are seeing higher proposed audit fees. An auditor has to comply with numerous standards promulgated by "governing organisations". The practical reality

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is increased requirements to perform an audit and complex transactions bring higher and hidden costs to perform the audit. Such transactions include:

- Related party transactions
- Sophisticated investment transactions
- Consolidations of related investment entities
- The increased complexity of business transactions

## What should one look for in an auditor?

When having a root canal, you don't want to be in that dentist chair for hours and hours. So a good auditor will get you 'in and out' quickly, while providing a high quality service and meeting regulatory deadlines.

Another area of importance is the ability to call the auditor with a question and receive a response in a timely fashion without being charged for asking simple questions. Something else that can make a real difference is the auditor being able to communicate technical insurance and accounting concepts in "layman terms" rather than dry, over-complicated jargon.

Finally, an auditor that has a good working relationship with the regulators is an advantage. For example, HKG has been working with many of the regulators for over a decade. We are in regular contact with them to seek their advice and sometimes consult with them regarding requirements they wish to implement.

## Coming up

In our next contribution to *Captive Review*, we will be discussing the kinds of issues that are often revealed in the auditing process. We will look at factors such as the discovery of documentation insufficiency, problems in corporate governance, business inefficiency and poor communication. 