



TaxNewsFlash

United States



No. 2020-057
January 31, 2020

IRS update on “micro-captive insurance transactions”

The IRS today released an update on “abusive micro-captive insurance transactions.”

According to the IRS release—[IR-2020-26](#)—nearly 80% of taxpayers who received a time-limited settlement offer elected to accept the settlement terms. In addition, the IRS is establishing 12 new examination teams that are expected to open audits related to thousands of taxpayers in coming months.

The IRS has viewed abusive micro-captives as a threat to tax administration for several years. The transaction has appeared on the IRS “Dirty Dozen” list of tax scams since 2014. In 2016, the Department of the Treasury and IRS issued Notice 2016-66 that identified certain micro-captive transactions as having the potential for tax avoidance and evasion. Read [TaxNewsFlash](#)

The settlement offer followed three U.S. Tax Court decisions holding that certain micro-captive arrangements are not eligible for federal tax benefits. Read [TaxNewsFlash](#) reports from [April 2019](#), [June 2018](#), and [August 2017](#) on these court cases. The terms of the settlement required substantial concession of the income tax benefits claimed by the taxpayer together with appropriate penalties.

The IRS is establishing 12 new examination teams that will be working to address abusive transactions and open additional exams. Examinations impacting micro-captive insurance transactions of several thousand taxpayers will be opened by these teams in the coming months. Potential civil outcomes can include full disallowance of claimed captive insurance deductions, inclusion of income by the captive entity and imposition of applicable penalties.

The IRS reminds taxpayers and advisors that disclosure of participation in micro-captive insurance transactions is required with the IRS Office of Tax Shelter Analysis under Notice 2016-66. Failure to properly disclose can result in civil penalties.

The information contained in TaxNewsFlash is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader’s knowledge on the matters addressed therein, and is not intended to be applied to any specific reader’s particular set of facts. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever.

Direct comments, including requests for subscriptions, to [Washington National Tax](#). For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to [Washington National Tax](#).

[Privacy](#) | [Legal](#)