HMRC - OT14760 - Transactions - Direct Insurance With A Captive

Where insurance is placed directly with a captive (the AB route) the amount allowable by reference to OTA75\Sch4\Para2 is restricted to the costs of the captive relevant to that insurance.

If all risks are reinsured by the captive and there are no “retentions” in so doing, relief is restricted to the premium paid by the captive to a third party plus any related administrative costs.

If the risks are retained by the captive and not reinsured the costs are confined to the cost of writing the policies.

Where some of the risks are reinsured but some retained it will be necessary to evaluate the true cost of the insurance ultimately placed outside the group at arm’s length. Consideration may need to be given to any impact on the captive from other third party business that it conducts. But it is still necessary to identify and isolate the insurance written with the affiliate and to measure those costs for OTA75\Sch4\Para2 purposes.

In determining what is the cost to the captive it is important to obtain a copy of the captive’s accounts if possible as evidence of costs.

The quality of the insurance cover must be kept in view in terms of determining whether an oil company is insuring unrealistically with its captive (e.g. small risks insured by a large company with a captive which the oil company itself might be expected to carry). This may involve consideration of the OTA75\S3 purpose of the expenditure as well as the OTA75\Sch4\Para2 aspects.

Previous page

Next page