HMRC - OT14780 - Transactions - Indirect Insurance With A Captive

Where a third party insurance company is interposed between the captive and affiliate company (the ACB route), relief for the company incurring expenditure in a transaction caught by OTA75\Sch4\Para2 will in most cases be restricted to

any insurance retained by the third party company (or reinsured with another third party) plus

the captive’s costs and any reinsurance cost with a third party.

This is because the situation presented by the ACB route is unlikely to be free from circumstances and arrangements that would not pertain in a transaction in which a third party insurer replaced the captive.

The issues involved in arriving at allowable expenditure for PRT claims follow broadly the same consideration as in a direct insurance arrangement with a captive. Measuring the cost of the captive’s retained risk will follow the same principles as outlined for direct insurance with a captive.

Regard needs to be paid to the quality of the insurance in the nature and quantum of risk retained by the captive in relation to the premium charged to the affiliate. As with direct insurance arrangements this may involve consideration of the OTA75\S3 purpose of the expenditure in addition to the OTA75\Sch4\Para2 aspects.

The captive’s accounts will almost certainly need to be reviewed as evidence of costs.

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