

HAWAII CAPTIVE INSURANCE COUNCIL

TAX UPDATE 2013

NOVEMBER 5-8, 2013

HAPUNA BEACH PRINCE HOTEL

KOHALA COAST OF HAWAII

ALICE WEST
DIRECTOR OF INSURANCE
SAFEWAY, INC.

KARL N. HUIH
PRESIDENT, CAPTIVE SERVICES
ARTEX RISK SOLUTIONS, INC.
MESA, ARIZONA

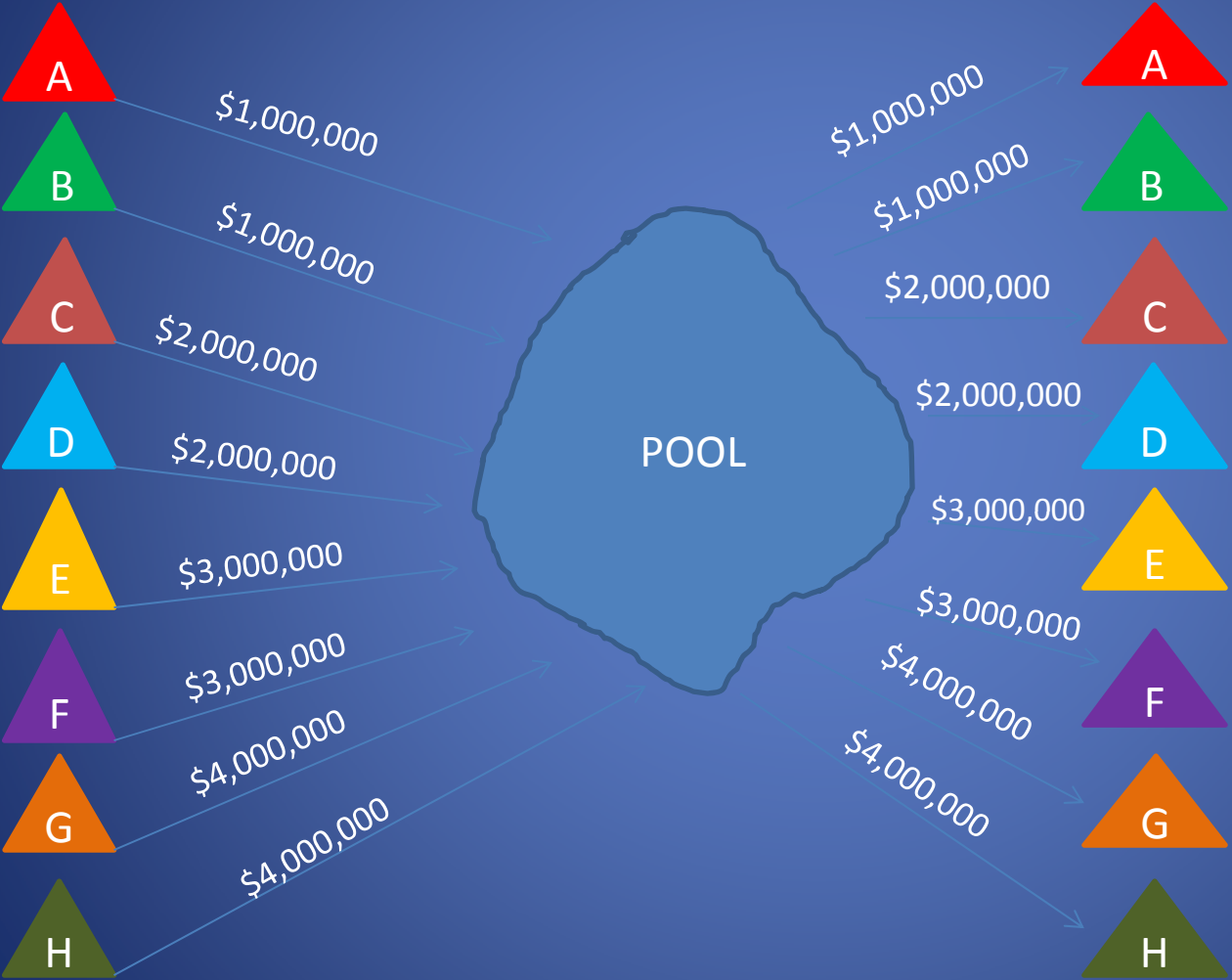
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CASE STUDY 1

- FACTS

- INSURED A HAS HAD AN ACTUARY DETERMINE THAT \$1,000,000 WOULD BE AN APPROPRIATE PREMIUM TO INSURE ITS AL, GL AND THE DEDUCTIBLE PORTION OF ITS WC RISK
- INSURED HAS NO SUBSIDIARIES AND OPERATES THROUGH A NUMBER OF DIVISIONS
- INSURED DECIDES TO FORM CAPTIVE A AND JOIN POOL Z
- CAPTIVE CEDES 100% OF ITS RISK TO OTHER POOL A PARTICIPANTS AND TAKES BACK A PROPORTIONATE SHARE OF POOL'S RISKS

CASE STUDY 1



- 1. ECONOMICS
- 2. INSURANCE RISK
RETAINED
- 3. UNRELATED RISK
- 4. HOMOGENEITY
- 5. CONCENTRATION
OF RISK

CASE STUDY 1

- ANALYSIS
 - WILL INSURED A BE ABLE TO TAKE A DEDUCTION FOR FEDERAL INCOME TAX PURPOSES FOR THE PREMIUM IT PAYS TO POOL Z AS DESCRIBED IN THE CHART?
 - WHAT IF CAPTIVE A CEDED AND ACCEPTED ONLY 25% OF ITS RISK TO POOL A PARTICIPANTS?

CASE STUDY 2

- FACTS
 - INSURED B IS A HOLDING COMPANY WITH NO OPERATIONS
 - INSURED B BUYS VARIOUS COVERAGES IN THE COMMERCIAL MARKET AND IS CONSIDERING THE FORMATION OF A WHOLLY-OWNED CAPTIVE INSURER TO COVER CERTAIN RISKS RELATING TO ITS MORE THAN 30 SUBSIDIARIES
 - FOR EACH OF THE PROPOSED LINES OF BUSINESS, THE PREMIUM ALLOCATED TO ANY SUBSIDIARY WILL NOT EXCEED 10% OF THE TOTAL PREMIUM FOR THAT LINE OF BUSINESS

CASE STUDY 2

- FACTS

- THE LINES OF BUSINESS ARE:

- RESIDUAL VALUE INSURANCE WITH REGARD TO EQUIPMENT THAT 20 OF ITS SUBSIDIARIES PROVIDE TO CUSTOMERS ON LONG-TERM LEASES EXCEEDING 36 MONTHS
- CURRENCY SWAPS TO PROTECT THE SAME SUBSIDIARIES ON SALES OF SUCH EQUIPMENT ON THE INSTALLMENT METHOD TO FOREIGN PURCHASERS AND WITH REGARD TO THE LEASE PAYMENTS

CASE STUDY 2

- FACTS

- THE LINES OF BUSINESS ARE:

- EMBEDDED WARRANTY ON THE EQUIPMENT SOLD AND LEASED WHICH EXTENDS FOR 36 MONTHS
- INSURANCE OF CLEAN UP OF 14 SITES ON WHICH CERTAIN OF THE SUBSIDIARIES PREVIOUSLY MANUFACTURED THEIR PRODUCTS
- COVERAGE FOR LIABILITIES ACCRUED ON THE BOOKS OF MORE THAN 20 SUBSIDIARIES WITH RESPECT TO PRODUCTS THAT SUCH SUBSIDIARIES CEASED PRODUCING FIVE OR MORE YEARS AGO WHICH ARE IN VARIOUS STAGES OF LITIGATION

CASE STUDY 2

- ANALYSIS
 - WILL PREMIUM DEDUCTIONS BE ALLOWABLE WITH REGARD TO EACH OF THESE COVERAGES?

CASE STUDY 3

- FACTS
 - INSURED C HAS TWO BUSINESSES: (a) MANAGEMENT, AND (b) OWNERSHIP OF REAL ESTATE. C PROPOSES TO FORM A WHOLLY-OWNED CAPTIVE TO COVER FOR PROPERTIES IT MANAGES AS WELL AS PROPERTIES IN WHICH IT HAS AN EQUITY INTEREST:
 - TRIA
 - PROPERTY, AND
 - GENERAL LIABILITY

CASE STUDY 3

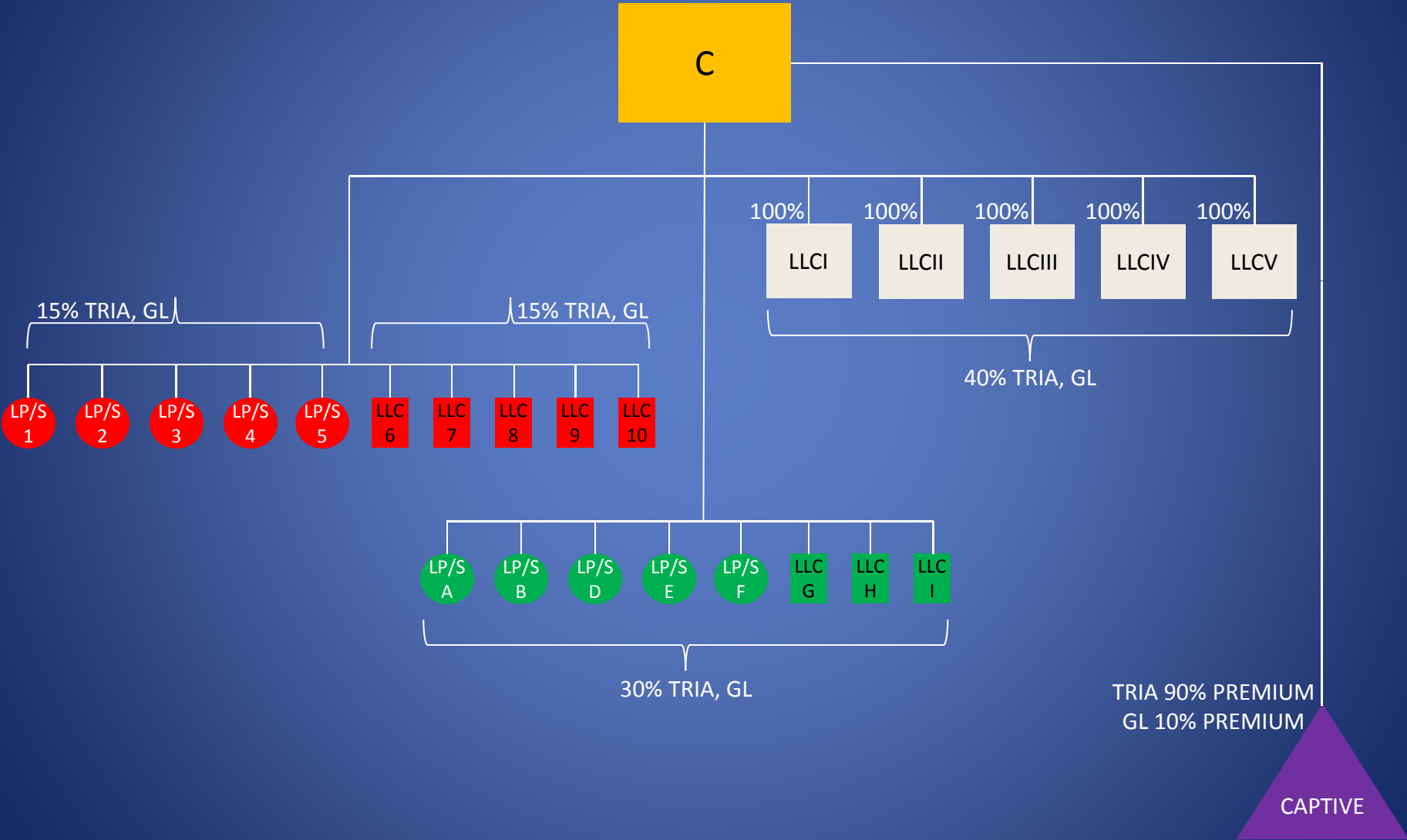
- FACTS
 - INSURED C HAS A GENERAL PARTNERSHIP INTEREST IN LIMITED PARTNERSHIPS 1-5 AND A-F RANGING FROM 1% TO 5%
 - INSURED C IS A MEMBER OF LLC'S 6-8 AND G-I WITH EQUITY INTERESTS RANGING FROM 1% TO 10%

CASE STUDY 3

- FACTS

- THE TRIA AND PROPERTY RISK PREMIUM IS 90% OF THAT TO BE WRITTEN BY THE CAPTIVE AND IS ALLOCABLE AS FOLLOWS:
 - 40% OF THE PREMIUM IS ATTRIBUTABLE EQUALLY TO LLC I-V
 - 30% OF THE PREMIUM IS ATTRIBUTABLE EQUALLY TO LP 1-5 AND LLC 6-10 EQUALLY ALLOCATED TO EACH
 - 30% OF THE PREMIUM ATTRIBUTABLE EQUALLY TO P/S A-F AND LLC G-I
- THE GL PREMIUM IS 10% OF THAT TO BE WRITTEN BY THE CAPTIVE AND IS ALLOCABLE AS ABOVE

CASE STUDY 3



CASE STUDY 3

- ANALYSIS
 - WILL A DEDUCTION BE AVAILABLE FOR THE PREMIUM PAID FOR THESE COVERAGES?
 - IF A DEDUCTION IS NOT PERMITTED FOR PREMIUM PAID, SHOULD C GO AHEAD WITH THE FORMATION OF CAPTIVE C ANYWAY?

CASE STUDY 4

- FACTS

- INSURED D, WHICH IS HEADQUARTERED IN STATE N, HAS 15 SUBSIDIARIES (S1-S15) FORMED AND OPERATING IN STATE N, 7 IN STATE I (S16-S23) AND 5 IN STATE M (S-24-S29)
- A POLICY ISSUED TO INSURED D IN STATE N COVERS GL RISKS OF ALL SUBSIDIARIES AS WELL AS INSURED D
- ALL SUBSIDIARIES ARE ROUGHLY EQUAL IN SIZE
- INSURED D ALSO PURCHASES A POLICY OF PROFESSIONAL LIABILITY INSURANCE COVERING SUBSIDIARIES IN STATES I AND M

CASE STUDY 4

- FACTS

- INSURED D ALSO HAS DIVISIONS IN STATE N AND 16 STATES OTHER THAN STATES I OR M AND PURCHASES PRODUCT LIABILITY COVERAGE FOR THESE OPERATIONS, THE LARGEST OF WHICH IS IN STATE N
- ALL COVERAGE IS BOUGHT ON A DIRECT PROCUREMENT BASIS FROM INSURED D'S WHOLLY-OWNED CAPTIVE DOMICILED IN STATE H

CASE STUDY 4

- FACTS
 - INSURED D HAS ALSO OBTAINED A PROHIBITED TRANSACTION EXEMPTION FROM THE DEPARTMENT OF LABOR AND REINSURES SEVERAL WELFARE BENEFIT PLANS WITH ITS STATE H CAPTIVE
 - THE REINSURANCE PREMIUM ACCOUNTS FOR 50% OF THE TOTAL PREMIUM WRITTEN BY THE STATE H CAPTIVE

CASE STUDY 4

- FACTS
 - THE CAPTIVE LAW IN STATE H ALLOWS EMPLOYEE BENEFITS TO BE REINSURED WITH CAPTIVES IN THAT STATE
 - ALTHOUGH THERE IS A CAPTIVE LAW IN STATE N, IT DOES NOT ALLOW CAPTIVES TO WRITE EMPLOYEE BENEFITS

CASE STUDY 4



CASE STUDY 4

- ANALYSIS
 - WHAT DIRECT PLACEMENT TAXES ARE DUE?
 - CAN THE TAX BE REDUCED CONSISTENT WITH THE OBJECTIVES DEVELOPED TO USE A CAPTIVE?
 - ARE OTHER STATE INCOME TAX ISSUES POSSIBLE?

CASE STUDY 5

- FACTS

- INSURED A IS HEADQUARTERED IN STATE N WITH A CAPTIVE BASED IN STATE H
- INSURED A HAS OPERATIONS EQUALLY DIVIDED AMONG STATE N, TEXAS, CALIFORNIA, COLORADO, PENNSYLVANIA
- INSURED A PAYS A PREMIUM TO ITS CAPTIVE AND BASED ON NRRRA AND NEW JERSEY LAW PAYS A DIRECT PROCUREMENT TAX TO NEW JERSEY ON 100% OF THE PREMIUM PAID TO THE CAPTIVE LOCATED IN STATE H

CASE STUDY 5

- WILL ANY OTHER STATE CLAIM IT IS OWED DIRECT PLACEMENT TAX?
- WHAT IF THE CAPTIVE WERE DOMICILED IN STATE N?

CASE STUDY 6

- FACTS

- INSURED E IS A US COMPANY ENGAGED DIRECTLY AND THROUGH VARIOUS SUBSIDIARIES THROUGHOUT THE WORLD IN THE ENERGY BUSINESS

- IT HAS A WHOLLY-OWNED DOMESTIC SUBSIDIARY, SE, IN THE UNITED STATES THAT, IN TURN, OWNS TWO CAPTIVES, ONE IN STATE H AND ANOTHER IN COUNTRY C
- THE CAPTIVE IN STATE H INSURES ONLY THE RISKS OF SE

CASE STUDY 6

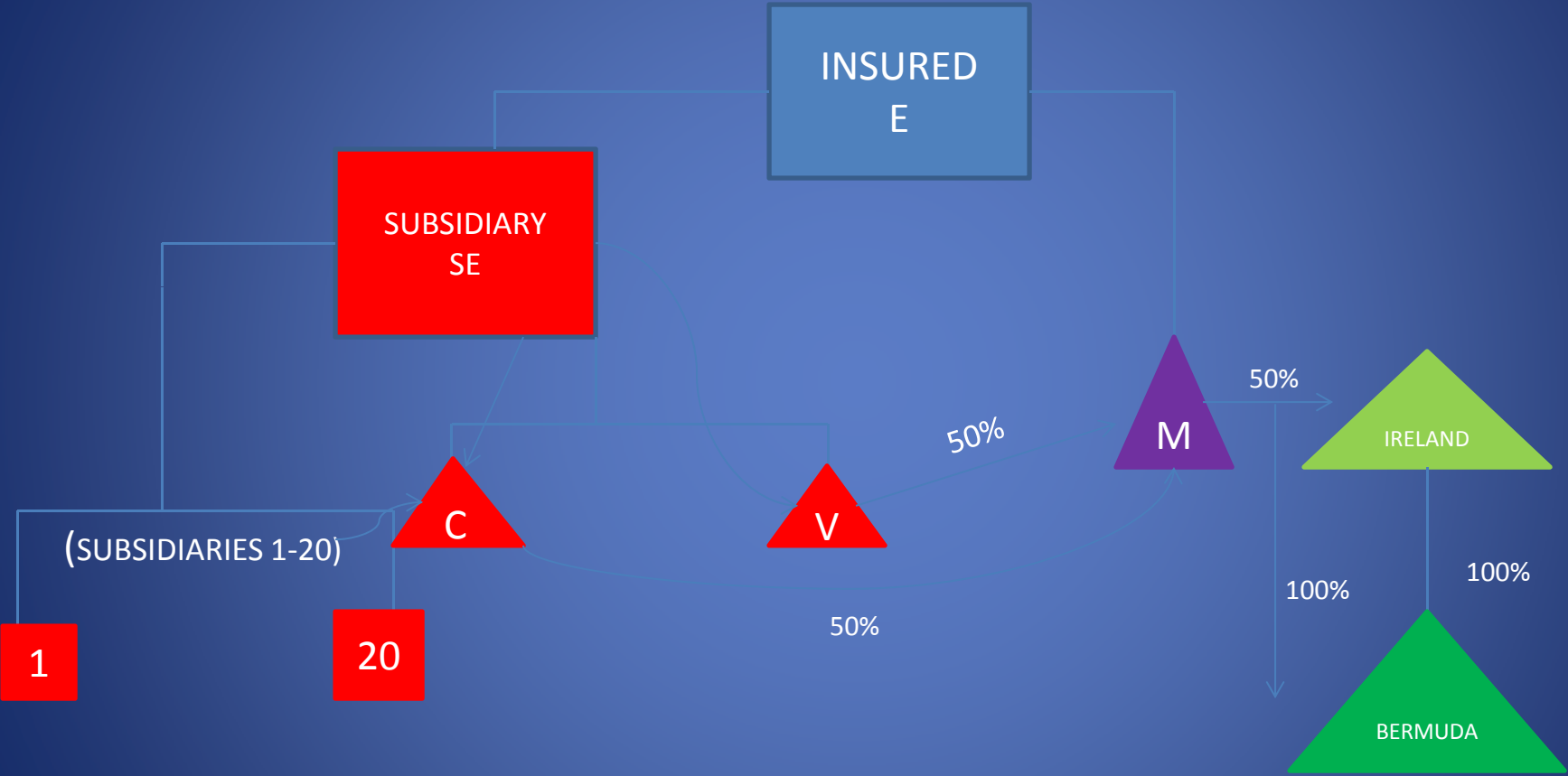
- FACTS

- THE CAPTIVE IN COUNTRY C INSURES THE RISKS OF SE AND 20 OPERATING SUBSIDIARIES THAT IT WHOLLY OWNS
- NOT MORE THAN 10% OF THE PREMIUM RECEIVED BY THE CAPTIVE IN COUNTRY C, WHICH HAS NO TREATY WITH THE US, EXCEEDS 10% OF THE TOTAL PREMIUM RECEIVED BY THAT CAPTIVE
- INSURED E ALSO DIRECTLY OWNS A CAPTIVE LOCATED IN COUNTRY M WHICH PROVIDES VARIOUS COVERAGES TO INSURED E AND OTHER OF ITS NON-US SUBSIDIARIES

CASE STUDY 6

- FACTS
 - NEITHER E NOR ANY OF ITS SUBSIDIARIES ACCOUNTS FOR MORE THAN 8% OF THE PREMIUM PAID TO THE CAPTIVE IN COUNTRY M
 - THE CAPTIVES OWNED BY SE BOTH REINSURE 50% OF THEIR PREMIUM WITH THE CAPTIVE IN COUNTRY M, WHICH IN TURN REINSURES 50% TO AN IRISH COMMERCIAL REINSURER WHICH REINSURES 100% OF THE RISK TO ITS AFFILIATE IN BERMUDA

CASE STUDY 6



CASE STUDY 6

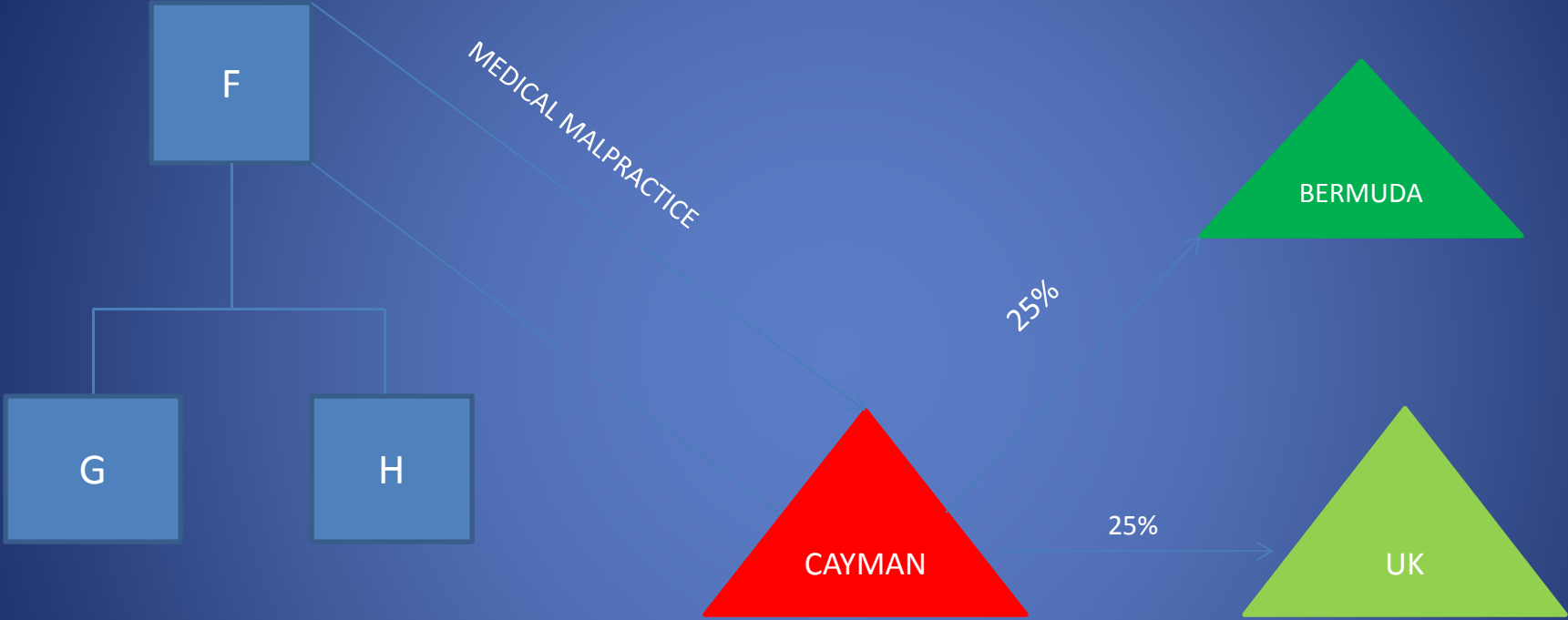
- ANALYSIS
 - WHAT FET IS DUE ON INSURANCE BETWEEN SE AND ITS CAPTIVE IN COUNTRY C?
 - WHAT FET IS DUE ON REINSURANCE PLACED WITH THE CAPTIVE IN COUNTRY M BY SE's TWO CAPTIVES?
 - WHAT FET IS DUE ON REINSURANCE WITH THE IRISH REINSURER?
 - WHAT FET IS DUE ON REINSURANCE WITH THE BERMUDA REINSURER?
 - HOW SHOULD POLICIES DOCUMENT THESE RELATIONSHIPS?

CASE STUDY 7

- FACTS

- HOSPITAL F, WHICH IS TAX EXEMPT, OPERATES IN STATE F, AS WELL AS IN STATES G AND H THROUGH CONTROLLED, AFFILIATED HOSPITALS
- HOSPITAL F PLACES MEDICAL MALPRACTICE INSURANCE WITH ITS WHOLLY-OWNED CAYMAN CAPTIVE WHICH REINSURES 25% WITH A LONDON MARKET REINSURER AND 25% WITH A BERMUDA REINSURER

CASE STUDY 7



CASE STUDY 7

- ANALYSIS
 - WHAT FET IS DUE?
 - WHAT DIRECT PLACEMENT TAX IS DUE?

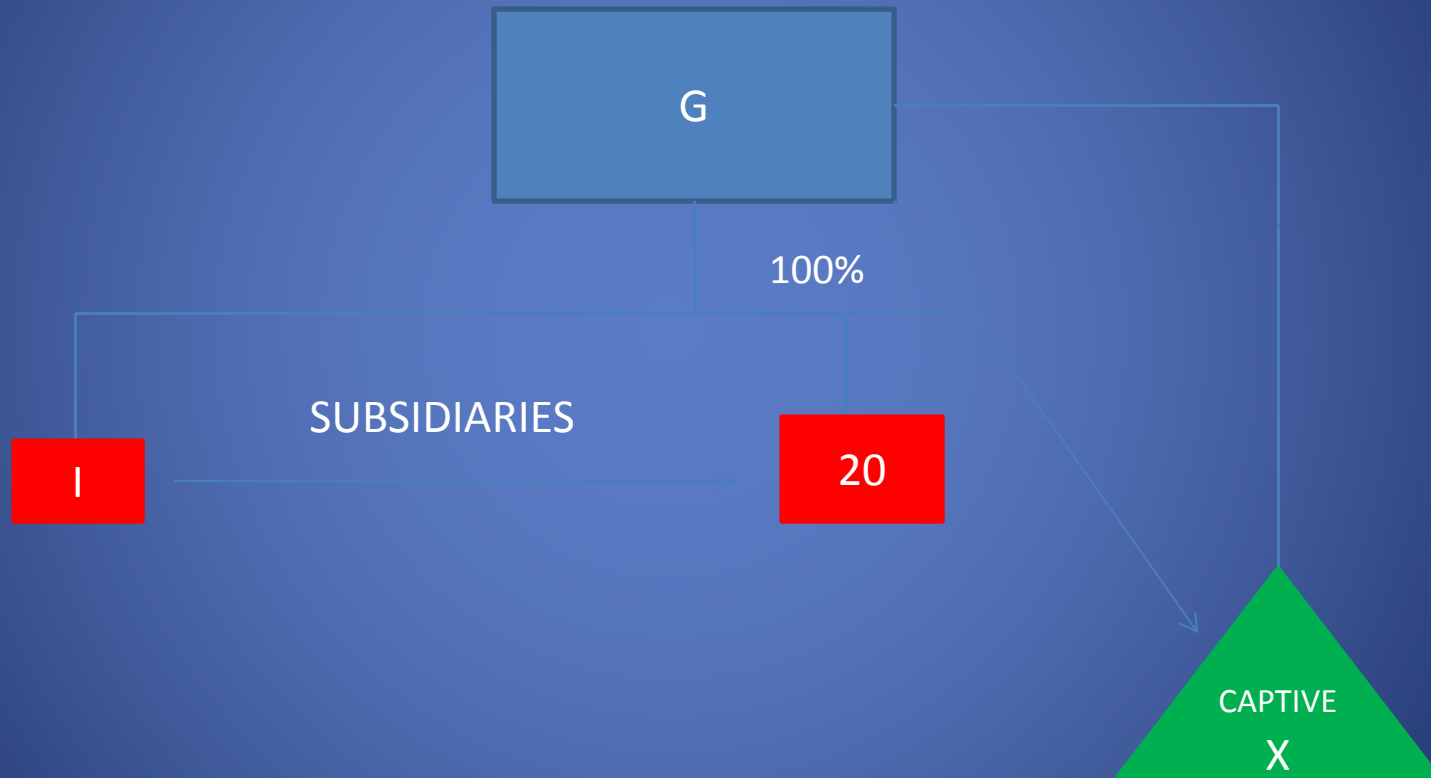
CASE STUDY 8

- FACTS
 - INSURED G HAS 20 SUBSIDIARIES AND INSURES ITS OWN OPERATIONS AS WELL AS THOSE OF ITS SUBSIDIARIES FOR PL AND GL WITH ITS CAPTIVE X LOCATED IN COUNTRY B
 - CAPTIVE X HAS AN ELECTION UNDER IRC § 953(d) IN PLACE SINCE ITS INCEPTION
 - INSURED G FILES CONSOLIDATED RETURNS INCLUDING CAPTIVE X

CASE STUDY 8

- FACTS
 - BASED ON LOSSES EXPERIENCED IN THE CURRENT YEAR, IT IS EXPECTED THAT CAPTIVE X WILL INCUR A LOSS IN THE CURRENT YEAR
 - BASED ON INDUSTRY INDICIA, CAPTIVE X MAY INCUR LOSSES IN TWO OR MORE YEARS AFTER THE CURRENT YEAR

CASE STUDY 8



CASE STUDY 8

- ANALYSIS
 - CAN G AS A CORPORATE PARENT OF CAPTIVE X AVAIL ITSELF OF LOSSES OF CAPTIVE X IN THE CURRENT YEAR AND SUBSEQUENT YEARS?
 - IF NOT, IS THERE A WAY INSURED G CAN AVAIL ITSELF OF SUCH LOSSES IN EITHER THE CURRENT YEAR OR SUBSEQUENT YEARS?

CASE STUDY 9

- FACTS
 - INSUREDS H – U ARE OWNERS OF AND INSUREDS OF CAPTIVE INSURER Z FORMED IN COUNTRY B WHICH WAS FORMED TO INSURE GL RISKS OF COMPANIES IN INDUSTRY X
 - CAPTIVE INSURER Z ALSO INSURES INSUREDS AA, BB, CC, DD, EE, FF, GG, HH AND II, ALL OF WHICH ARE LOCATED IN DIFFERENT STATES

CASE STUDY 9

- FACTS
 - CAPTIVE INSURER Z HOLDS QUARTERLY BOARD MEETINGS OF WHICH ONE IS HELD AT THE OFFICES OF INSURED H IN STATE H
 - CAPTIVE INSURER Z HAS 6 EMPLOYEES RESIDENT IN COUNTRY B, TWO OF WHOM MAKE REGULAR MONTHLY TRIPS TO VARIOUS STATES IN WHICH COMPANIES INVOLVED IN INDUSTRY X ARE LOCATED TO SOLICIT NEW INSUREDS. THE EMPLOYEES REGULARLY DISCUSS POLICY TERMS AND CONDITIONS AS WELL AS PRICING

CASE STUDY 9

- FACTS
 - CAPTIVE INSURER Z REGULARLY PLACES HALF-PAGE ADS IN BOTH INSURANCE AND INDUSTRY X PUBLICATIONS REFLECTING ONLY ITS NAME, ADDRESS AND TELEPHONE NUMBER AS WELL AS A REFERENCE TO INDUSTRY X
 - CAPTIVE INSURER Z MAINTAINS A DEDICATED SERVER IN THE UNITED STATES IN STATE H WHICH ALLOWS INSUREDS TO SEND APPLICATIONS DIRECTLY TO INSURER Z

CASE STUDY 9

- FACTS
 - CAPTIVE INSURER Z RENTS SPACE ON A SECOND SERVER ON WHICH IT MAINTAINS ITS WEBSITE WHICH GENERALLY DESCRIBES THE COMPANY, THE COVERAGES IT PROVIDES AND INCLUDES ITS MOST RECENT FINANCIALS
 - OFFICERS OF CAPTIVE INSURER Z MEET QUARTERLY WITH INVESTMENT ADVISORS IN THE UNITED STATES WITH REGARD TO FUNDS INVESTED IN THE UNITED STATES

CASE STUDY 9

- FACTS
 - ALL NEGOTIATIONS REGARDING POLICY TERMS ARE CONDUCTED IN COUNTRY B, ALL PAYMENTS FOR COVERAGE DELIVERED IN COUNTRY B, AND ALL POLICY DOCUMENTATION DELIVERED TO REPRESENTATIVES OF INSUREDS IN COUNTRY B
- ANALYSIS
 - WHICH, IF ANY, OF THE ACTIVITIES OF CAPTIVE INSURER Z MAY GIVE RISE TO ISSUES OF DOING BUSINESS IN THE UNITED STATES?

CASE STUDY 10

- PETITIONER'S FACTS

- P IS A US BASED ENTITY THAT RENTS EQUIPMENT AND HAS 2,400 STORES
- P HAD W/C, GL AND AL RISKS DURING YEARS IN ISSUE
- P's AVERAGE STORE WAS ABOUT 4,500 SQUARE FEET, HAD 5 EMPLOYEES AND OPERATED ONE VEHICLE
- BROKER DID LOSS FORECASTS BASED ON INFO FROM P RELATING TO IT AND ITS SUBSIDIARIES
- DEDUCTIBLE BUYBACK PROGRAM RECOMMENDED AND IMPLEMENTED FOR ALL THREE LINES

CASE STUDY 10

- PETITIONER'S FACTS
 - A TOTAL OF 14,300 TO 19,730 EMPLOYEES FOR THE PERIOD 2003-2007
 - PURPOSES OF FORMING THE CAPTIVE, AMONG OTHERS
 - FUNDING SIR
 - FOCUS ON RISK MANAGEMENT
 - ADDRESSING FLEXIBILITY IN FUTURE EXPANDING INSURANCE NEEDS
 - WHOLLY-OWNED CAPTIVE L FORMED IN BERMUDA

CASE STUDY 10

- PETITIONER'S FACTS

- AS BOOK INCOME WAS GREATER THAN TAX INCOME, A DEFERRED TAX ASSET (“DTA”) CREATED AND TREATED AS A “RELEVANT” ASSET WITH PERMISSION OF BERMUDA MONETARY AUTHORITY (“BMA”) (ALSO TREATED AS ASSET FOR BOOK PURPOSES FOR SEC REPORTING), APPARENTLY AS A RESULT OF UNEARNED PREMIUM RESERVE (“UPR”)
- P REQUIRED TO GUARANTY ANY IMPAIRMENT OF DTA DUE TO CHANGE IN US TAX LAW

CASE STUDY 10

- PETITIONER'S FACTS
 - IN ORDER TO MEET SOLVENCY MARGIN, P ALSO AGREED IN A LETTER TO GUARANTEE TO L LIABILITIES OF L UP TO \$25 MILLION AND BMA TREATED LETTER AS PART OF STATUTORY CAPITAL
 - PRECISE ALLOCATIONS OF PREMIUMS NOT MADE IN YEARS AT ISSUE, BUT 4-15 PETITIONERS WERE INVOLVED, LARGEST IN 2003 WAS 69.7%, IN 2007 55.3%
 - L NEVER FAILED TO MEET ITS OBLIGATIONS WITH CASH ON HAND SO P'S LETTER NEVER ACTIVATED

CASE STUDY 10

- PETITIONER'S FACTS

- DURING THE PERIOD 2003-2007, FAVORABLE LOSS TRENDS LED TO RESERVE REDUCTIONS
- L PAID APPROXIMATELY \$50 MILLION FOR TREASURY SHARES OF P IN 2004, APPROXIMATELY \$28 MILLION IN 2005, AND APPROXIMATELY \$30 MILLION IN 2006, AND CONTINUED TO HOLD THE P SHARES
- THE TOTAL SHARES ISSUED NEVER EXCEEDED APPROXIMATELY 9% OF SHARES ISSUED BY P
- IF L NEEDED CASH TO PAY CLAIMS, P WAS CONTRACTUALLY OBLIGATED TO REPURCHASE SHARES

CASE STUDY 10

- IRS FACTS
 - FEASIBILITY STUDY CONCLUDED CAPTIVE WAS “ATTRACTIVE” IF 50% OR MORE OF PREMIUMS WERE “LOANED BACK”
 - BUY-BACK PROGRAM AS MODELED AND IMPLEMENTED WITH INTENTION THAT ALL PREMIUMS WOULD BE PAID BACK AS LOSSES
 - FEASIBILITY STUDY RECOGNIZED DTA WOULD NOT QUALIFY AS A “RELEVANT” ASSET

CASE STUDY 10

- IRS FACTS
 - CAPITAL IN L OF \$9.8 MILLION WAS DICTATED BY A CREDIT FACILITY WHICH LIMITED CAPITAL EXPENDITURES TO \$10 MILLION
 - IN APPLICATION, LOCAL COUNSEL RESPONDING TO QUERIES RE: PROPOSED PURCHASE OF P STOCK AND UTILIZATION OF DTA STATED THAT BECAUSE THE PROGRAM COVERED ONLY AFFILIATES
 - “THE PARENT BY FORMING THE CAPTIVE IN BERMUDA IS IN NO BETTER OR WORSE POSITION THAN PLACING EVERY CENT OF THE PREMIUM IN A BANK ACCOUNT OR FOR THAT MATTER LOCKING IT UP IN A SAFETY DEPOSIT BOX!!!!” (PUNCTUATION IN ORIGINAL)

CASE STUDY 10

- IRS FACTS

- L REPORTED THE PARENTAL GUARANTY AS AN ASSET IN VARIOUS AMOUNTS IN EACH YEAR, AND HAD THE PARENTAL GUARANTY NOT BEEN TREATED AS AN ASSET L WOULD NOT HAVE MET BMA SOLVENCY MARGIN REQUIREMENTS
- THE PARENTAL GUARANTY WAS CANCELLED EFFECTIVE DECEMBER 30, 2006 AT WHICH TIME L WAS DEEMED TO RECEIVE A CAPITAL INFUSION OF \$3 MILLION FROM P BY FOREGOING AN ACCOUNT PAYABLE

CASE STUDY 10

- IRS FACTS
 - COMMERCIAL P&C COMPANIES WRITE 3:1 AND L's RATIOS WITH THE PARENTAL GUARANTEE RANGED FROM ABOUT 9:1 TO 5:1 AND WITHOUT FROM 48:1 TO 5:1
 - CERTAIN AFFILIATES OF P WERE NOT CHARGED PREMIUMS FOR THE TAX YEARS, BUT RECEIVED REIMBURSEMENTS FROM L
 - L HAD NO EMPLOYEES

CASE STUDY 10

- IRS FACTS
 - L OFFICERS WERE P OFFICERS
 - L HAD NO INDEPENDENT DIRECTORS
 - L HAD NO INVESTMENTS OTHER THAN A MONEY MARKET ACCOUNT AND THE TREASURY STOCK, ASSETS WERE A/P's FROM P AND P TREASURY STOCK
 - ASSETS WERE NOT DIVERSIFIED, BUT CORRELATED WITH P's RISKS
 - POLICY ALLOWED NETTING OF UNPAID LOSSES AGAINST PREMIUM

CASE STUDY 10

- IRS FACTS
 - FIXED WEEKLY WITHDRAWALS MADE FROM L's MONEY MARKET ACCOUNT WHICH DEPLETED IT UNTIL THE NEXT ANNUAL PREMIUM (NOT CONVENTIONAL PRACTICE)
 - IN ANNUAL REPORT TO SEC, P REPORTED ITSELF AS "SELF INSURED" WITHOUT REFERENCE TO L
- ANALYSIS
 - IS L AN INSURANCE COMPANY?
 - IS A DEDUCTION AVAILABLE?

SALTY BRINE

- FACTS

- MARKETING FIRM HELD PROGRAMS FOR TWO COMPANIES , FIDELITY AND CITADEL, IN BWI THAT SOLD BUSINESS PROTECTION INSURANCE IN CONNECTION WITH CASH VALUE LIFE INSURANCE
- INDIVIDUALS (I) FORMED TRUSTS FOR BENEFIT OF THEIR CHILDREN
- I SET UP BWI LLC TO BUY CASH VALUE POLICY FROM FIDELITY HELD IN SEGREGATED ACCOUNTS

SALTY BRINE

- FACTS
 - OTHER BUSINESS OWNED BY I BOUGHT BUSINESS PROTECTION INSURANCE FROM FIDELITY AND CITADEL
 - BPI POLICY FOUND TO PROTECT REMOTE AND IMPLAUSIBLE RISKS

SALTY BRINE

- FACTS

- PREMIUM BASED ON AMOUNT AVAILABLE AT BUSINESSES TO “INVEST IN CASH VALUE POLICY”
- PREMIUMS PAID TO INTERMEDIATE ENTITY WHICH PAID FIDELITY AND CITADEL WHICH HAD ENTERED INTO A R/I AGREEMENT WITH AN AFFILIATE TO CEDE 85% (100% LESS 15% FEE) WHICH ENTERED INTO AGREEMENT TO CEDE RISK TO SEGREGATED ACCOUNT

SALTY BRINE

- FACTS
 - FIDELITY/CITADEL PAID TO SEGREGATED ACCOUNT
 - I TOOK DEDUCTION FOR PREMIUMS PAID
- DECISION
 - PAYMENTS NOT ORDINARY AND NECESSARY BUSINESS EXPENSES, BUT BEYOND THAT RATIONALE NOT REALLY CLEAR