Minnesota Applies Direct Procurement Tax to Captive Insurers

Alert
09.03.2020

By Pete Thrane and Ryan Sugden

A small change to a tax form could have big consequences for Minnesota businesses that purchase insurance directly from captive insurers.

The Minnesota Department of Revenue recently revised Form IG255, the tax return filed for remitting the tax levied upon the premium for insurance directly procured from non-admitted insurers. Minnesota-headquartered insureds of captives are now expressly subject to the direct procurement tax if a licensed broker does not place the coverage.

Under Minnesota law, an insured headquartered in Minnesota that directly (without the representation of a surplus lines broker) procures insurance from a non-admitted insurer must pay a Minnesota tax equal to 2% of the premiums paid. The revised tax return form now specifically identifies captives as non-admitted insurers for purposes of the tax.

Minnesota's insurance taxation statutes do not define what constitutes a captive in this context, and the text of the revised form does not provide explanation of what is considered a captive for purposes of this tax. Insureds directly procuring insurance from an insurer falling within the broad ambit of what constitutes a captive will need to evaluate each placement to determine whether a transaction is subject to the tax and to consider strategies for mitigating the tax.

CONTACTS

Ryan M. Sugden

Peter H. Thrane

Minnesota Applies Direct Procurement Tax to Captive Insurers

RELATED CAPABILITIES

Insurance & Health Plans