

New Taxes for Vermont Captive Insurance Companies

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Vermont recently enacted legislation changing the laws governing the taxation of captive insurance companies domiciled in Vermont (H.438, Act 21). Effective July 1, 2011, the new legislation expands the Vermont taxes that may be imposed on a captive insurance company domiciled in Vermont, modifies the combined filing rules, and expands the nonrefundable credit available to Vermont-domiciled captive insurance companies. A copy of the pertinent sections of the Act is attached below.

Under prior law, a Vermont-domiciled captive insurance company was subject to a premium tax imposed pursuant to the Banking and Insurance Code and administered by the Vermont Department of Taxes. Two or more captive insurance companies under common ownership and control were subject to the premium tax on a combined basis, as though they were a single captive insurance company. In addition to the premium tax, a Vermont-domiciled captive insurance company was subject to ad valorem taxes on real and personal property used in the production of income. Vermont-domiciled captive insurance companies were statutorily exempt from all other taxes imposed and administered by the Vermont Department of Taxes. Vermont-domiciled captive insurance companies were entitled to a nonrefundable tax credit of \$7,500, to be applied against their aggregate taxes for their first taxable year. However, this credit was scheduled to expire December 31, 2010.

The new legislation expands the taxes administered by the Vermont Department of Taxes that may be imposed on a Vermont-domiciled captive to include meals and rooms taxes, and sales and use taxes. In addition, the legislation amends the premiums tax combined filing provisions. Under the revised combined filing provisions, a special-purpose financial captive can no longer file a consolidated premiums tax return with a captive that is not a special-purpose financial captive. Finally, the new legislation extends the availability of the \$7,500 first year nonrefundable tax credit beyond December 31, 2010.

For more information on the new Vermont captive insurance company legislation, and its impact on the captive insurance companies within your business, contact the authors of this *Alert* or another member of the Reed Smith State Tax Group.

Linked files

H438 Act 21 Extract [21kb]

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