



Department of the Treasury
Internal Revenue Service
LB&I
3651 S. IH 35
MS 4301AUSC
Austin, TX 78741

Date:
3/20/2020
Taxpayer ID number:
XX-XXX [REDACTED]
Telephone number:
737-800-7995
Response due date:
5/4/2020



Micro-Captive Insurance

Dear [REDACTED]:

Why we're writing to you

We have information that you've taken a deduction or other tax benefit related to micro-captive insurance on a prior year tax return and disclosed pursuant to Notice 2016-66 and Notice 2017-08.

Several recent U.S. Tax Court decisions have confirmed that certain micro-captive arrangements are not eligible for claimed Federal tax benefits. We're notifying you regarding IRS compliance activity in this area so you can make informed decisions about claiming tax deductions for micro-captive insurance premiums. The IRS is increasing enforcement activity in this area and has deployed several examination teams to open additional examinations of returns that included micro-captive insurance transactions. Examinations may result in full disallowance of claimed micro-captive insurance deductions, inclusion of income by the captive entity, and imposition of applicable penalties.

What you need to do

If you're no longer claiming deductions or other tax benefit for any micro-captive insurance transactions covered under Notice 2016-66 on your Federal income tax returns, please notify us by sending a letter to the address shown above. You must send it by the response due date shown at the top of this letter. This written notification must include:

- A signed penalties of perjury statement (see below),
- The last tax year in which you claimed deductions or other tax benefit for micro-captive insurance premiums, and
- If applicable, the date you ceased participating in the micro-captive insurance transaction.

If you continue to participate in a micro-captive insurance transaction covered under Notice 2016-66, you must continue to disclose your participation in the transaction.

Before you file your 2019 Federal income tax return, we recommend you consult an independent, competent tax advisor on the proper treatment for past and future tax years and consider your best options for any improperly claimed deductions or other tax benefit, including filing amended returns. For more information, visit www.irs.gov/filing. You can find tax forms or publications by visiting www.irs.gov/forms-pubs or calling 800-TAX-FORM (800-829-3676).

We'll take your actions in response to this letter into account when considering future compliance activity related to your micro-captive insurance arrangement.

Penalties of perjury statement

I, _____, declare under penalties of perjury that I have examined this entire document, including all attachments and accompanying statements, and that the enclosed is true, correct, and complete. I also understand with respect to any submission that the IRS reserves the right to make further contacts with me and my representatives to clarify any written explanation or any other documents. Statements and documents sent under this option will be checked against other sources for accuracy.

Last tax year in which I claimed deductions or other tax benefit for micro-captive insurance premiums:

Date I ceased participating in the micro-captive insurance transaction (if applicable):

Signature: _____

Date: _____

If you need to file an amended return

If you're filing an individual amended return, write "Microcaptive" at the top of the first page of the Form 1040X and mail the amended return to:

Internal Revenue Service
2970 Market Street
Philadelphia, PA 19104

If you're filing a business amended return:

- If you're filing on paper, write "Microcaptive" at the top of the first page of the amended return and mail to the address listed in the instructions for the amended return.
- If you're filing electronically, include "Microcaptive" when explaining the reasons for the changes.

If we don't hear from you by the "respond by" date

We may refer your return for examination. Please be aware that underpayments of tax are subject to interest and penalties.

Someone may represent you

If you want someone to represent you in this matter, send a completed Form 2848, Power of Attorney and Declaration of Representative, with your response to the address shown above.

Additional information

This isn't an audit of your tax return or of your failure to file one. This inquiry doesn't constitute an examination under Internal Revenue Code Section 7605(b) or a contact regarding an examination under Treasury Regulation 1.6664-2(c)(3)(i)(A) for purposes of defining a qualified amended return. If you're currently under audit or have other matters before the IRS, you should consult with your examiner or point of contact.

If you have questions, call the hotline telephone number shown at the top of this letter and leave a message. We'll respond to all messages within five business days.

Thank you for your cooperation.

Sincerely,

Martha Walker

Martha Walker
Program Manager