

2017
North Carolina Gross Premiums Tax
Protected Cell Captive Insurance Company
Form IB-4A2 Instructions

General Information

Every protected cell captive insurance company licensed to do business in North Carolina is required to file a premiums tax return and pay a tax on the premiums for business done during the calendar year.

The gross premiums tax return for protected cell captive insurance companies is due on or before March 15. The return covers the aggregate activities of the core and all cells in the protected cell captive insurance company during the immediately preceding calendar year. If a protected cell captive insurance company has a fiscal year-end, the return must include a schedule showing premiums for the calendar year. For example, a protected cell captive with a fiscal year ending July 31 would include activity for the period January 1 through July 31, and the period August 1 through December 31.

The premium amounts reported on the protected cell captive insurance company premiums tax return **must** agree with amounts reported in the financial reports filed with the North Carolina Department of Insurance ("NCDOI"). Copies of the "Premiums Schedules" included in the financial reports filed with the Commissioner of Insurance must be attached to the return when filed. Information on requirements for filing the annual financial report is available at www.nccaptives.com.

The information contained in these instructions is to be used as a guide in the preparation of the North Carolina gross premiums tax return for protected cell captive insurance companies and is not intended to cover all provisions of the law pertaining to protected cell captive insurance companies. For specific information on the formation of protected cell captive insurance companies in the State, refer to Chapter 58, Article 10, Part 9 of the General Statutes. For specific information on the taxation of protected cell captive insurance companies, refer to Chapter 105, Article 8B of the General Statutes.

Form IB-4A2 is to be filed by each protected cell captive insurance company. This form is **not** to be used by a captive insurance company that is not a protected cell captive insurance company or by a group of captive insurance companies under common ownership and control filing as a consolidated group of captive insurance companies. Stand-alone captives must file Form IB-4A1. Consolidated groups must file Form IB-4A3. The forms are available on the Department's website.

Specific Instructions for Filing Form IB-4A2

Legal Name, Address, and Identification Numbers

Enter the legal name, mailing address, federal identification number/social security number, the National Association of Insurance Commissioners ("NAIC") number, if applicable, and the North Carolina Department of Insurance ("NCDOI") license number of the protected cell captive insurance company as it appears on the license issued by the NCDOI on the appropriate lines. Enter the principal place of business in North Carolina and the date licensed to do business in North Carolina on the appropriate lines.

Number and Type of Protected Cells

Enter the number and type of protected cells on the appropriate lines. **For purposes of determining the number and type of cells, the core is to be treated as a cell.**

Name of Contact Person

Enter the name of the person to contact for all matters pertaining to the tax return.

Legal Name of Captive Manager Firm

Enter the name and mailing address of the approved captive manager firm responsible for all financial reporting and tax matters.

Part 1. Computation of Tax on Direct Premiums

Direct premiums are premiums contracted for or collected on policies or contracts of insurance written by the company during the preceding calendar year. Gross direct premiums collected or contracted for is the Total Direct Premiums Written

reported on the premium information schedules in the annual financial forms filed with the NCDOL. **All direct premiums written by a North Carolina captive are subject to tax in North Carolina.**

Line 1. Gross Direct Premiums Collected or Contracted For

All protected cell captive insurance companies, enter the "Total All Lines" amount in the "Direct Written" column of "Schedule 2 Premiums" from Form C-200, Captive Annual Report Form, filed with the NCDOL. Aggregate amounts for the core and all cells in the protected cell captive insurance company are entered on the tax return. A supplemental schedule that includes the names of the core and each protected cell, identifying numbers of the core and each cell, whether the cell is unincorporated or incorporated, and direct premiums for the core and each protected cell **must** be attached to the premium tax return when filed. The premium information for the core and each cell and the aggregate totals for the core and all cells must be in the same format as Parts 1 and 2 of the return. **Copies of all appropriate pages in support of premiums from the financial statements of the core and each protected cell in the protected cell captive insurance company filed with the NCDOL must be attached.**

Line 2a through Line 2c. Adjustments

Line 1 may be reduced by amounts paid to policyholders as return premiums and by dividends on unabsorbed premiums or premium deposits returned or credited to policyholders. Premiums attributed to multi-year policies or contracts must be prorated among the years covered by the policy or contract. For Lines 2a through 2c, follow the line instructions to calculate the adjustments to the direct premiums reported on Line 1. **A schedule showing calculations must be attached to the return.**

Part 2. Computation of Tax on Assumed Reinsurance Premiums

Assumed Reinsurance Premiums are total premiums written for reinsurance assumed from affiliates and non-affiliates during the preceding calendar year.

Line 5. Assumed Reinsurance Premiums

All protected cell captive insurance companies should enter the "Total All Lines" amount in "Reinsurance Assumed" column of "Schedule 2 Premiums" from Form C-200, Captive Annual Report, filed with the NCDOL. Aggregate amounts for the core and all cells in the protected cell captive are entered on the form. A supplemental schedule that includes the names of the core and each protected cell, identifying numbers of the core and each cell, whether the cell is unincorporated or incorporated, and assumed reinsurance premiums for the core and each protected cell **must** be attached to the premiums tax return when filed. The schedule must include premium information for the core and each cell and the aggregate totals for the core and all cells in the same format as Parts 1 and 2 of the return. **Copies of all appropriate pages in support of premiums from the financial statements of the core and each protected cell in the protected cell captive insurance company filed with the NCDOL must be attached.**

Line 6a and Line 6b. Adjustments

Allowable deductions are 1) premiums for risks or portions of risks that are subject to taxation on a direct basis under N.C. Gen. Stat. § 105-228.4A(e) and 2) premium amounts in connection with the receipt of assets in exchange for the assumption of loss reserves and other liabilities of one insurer by another insurer if the two insurers are under common control and the Commissioner of Insurance verifies that the transaction between the insurers is (1) part of a plan to discontinue the operations of one of the insurers, and (2) the intent of the insurers is to renew or maintain business with the captive insurance company. **A detailed schedule of deductions must be attached.**

Part 3. Total Premiums Tax for Protected Cell Insurance Company with 10 or Fewer Cells

If the total number of unincorporated and incorporated cells in the protected cell captive is 10 or less, complete lines 9 and 10 following the instructions on the return and proceed to Part 5. If the total number of unincorporated and incorporated cells in the protected cell captive is greater than 10, skip Part 3 and go to Part 4. Follow the instructions on the return to complete this Part.

Part 4. Total Premiums Tax for Protected Cell Insurance Company with More than 10 Cells

If the total number of unincorporated and incorporated protected cells in the protected cell captive is greater than 10, complete Part 4 following instructions on the return and proceed to Part 5.

Part 5. Total Amount Due with This Return

If the total number of cells is 10 or fewer, the statutory minimum amount of premiums tax due before tax credits and applicable penalties and interest is \$5,000 and the maximum amount is \$100,000. If the total number of cells is more than

10, the statutory minimum amount of premium tax due before credits and applicable penalties and interest is \$10,000 and the maximum is \$200,000.

Line 21. Tax Credits

Information on tax credits that can be claimed against captive insurance gross premiums tax can be accessed on the Department's website. Instructions for claiming credits and the forms (Form CD-425 and appropriate forms in the NC-478 series) to be completed and filed with the premiums tax return for captive insurance companies claiming credits against premiums tax are also available on the Department's website. **Failure to substantiate a tax credit may result in the disallowance of that credit.**

Line 23a and Line 23b. Penalties

Returns filed after the statutory due date are subject to a failure to file penalty of 5% of the tax for each month, or part of a month, the return is late (maximum 25% of the tax due). In addition, returns filed after the statutory due date are subject to a late payment penalty of 10% of the tax due.

Line 24. Interest

Interest is due on any tax not paid by the due date. Interest accrues on tax not paid from the due date set by statute for payment of the tax until the tax is paid. Applicable interest rates are available on the Department's web site.

Line 25. Total Amount Due

Add Lines 22, 23a, 23b, and 24. **This is the total amount of tax, penalties, and interest due.** Make your check or money order payable to the North Carolina Department of Revenue. Payment of tax due must be in the form of U.S. currency from a domestic bank and included with the return. Returns and payments should be mailed to NC Department of Revenue, Insurance Premium Tax Unit, Post Office Box 25000, Raleigh, NC 27640-0300. Payment of taxes may be made electronically using ACH Debit or ACH Credit electronic funds transfer after receiving approval from the Department. For additional information, contact the Insurance Premium Tax Unit at 919-754-2600. Electronic filing of tax returns for captive insurance companies is not available.