Washington, DC - U.S. Senator Patrick Leahy (D-Vt.) and U.S. Representative Peter Welch (D-Vt.) announced Wednesday that the Internal Revenue Service (IRS) has dropped plans to change the way Vermont's captive insurance companies are taxed. Both Leahy and Welch sent letters asking the IRS to withdraw the proposed regulation.

Leahy said, "IRS officials listened, and they were willing to pull back an overly broad rule change that did not make sense for self-insuring companies. Peter and I both made it clear to the IRS that this regulation would have needlessly damaged Vermont's economy and could lead the captive insurance industry to leave the United States. For more than 25 years, these firms have been an economic engine for Vermont by creating hundreds of new jobs and business opportunities. This rule change offered no good reason to endanger that success."

Welch said, "I am thrilled common sense prevailed and the IRS has yielded to our sound reason. This is a crucial win for Vermont business and for well-paying Vermont jobs."

The proposed IRS regulation would have changed the taxation of captive insurance companies - which are a form of self-insurance sometimes used by large firms - that file joint tax returns for their consolidated affiliates. If a captive insurance company insures the risk of another member of the consolidated group, the rule change would have required that the transaction be recorded as if the two companies were divisions of a single entity, which is the treatment applied to non-insurance companies. That change would have prevented captive insurance companies from using the reserve accounting methodology that state insurance regulators require, and that applies for tax purposes to insurance companies that are not in consolidated groups.