Personal Taxes, Cost of Insurer Equity Capital, and the Case of Offshore Hedge Fund Reinsurers

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Abstract:
The movement of hedge fund capital into the offshore insurance/reinsurance industry, is attributed, in part, to the savings in personal taxes that these transactions provide the hedge fund investors. The consideration of personal taxes implies that the tax costs on insurer equity finance depends on an insurer’s investment policy (modeled here as the percentage of asset returns generated by interest, dividends, and both realized and unrealized short-term and long-term capital gains). The effects of the U.S. 2017 tax reform on the tax cost of insurer equity finance are analyzed.

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