Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters (Also Part I, §§ 832, 846; 1.832-4, 1.846-1)

Rev. Proc. 98-12

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 1997 accident year. These factors will be used for computing discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

SEC. 2. BACKGROUND

Section 832(b)(5)(A) requires that all estimated salvage recoverable (including that which cannot be treated as an asset for state accounting purposes) be taken into account in computing the deduction for losses incurred. Under § 832(b)(5)(A), paid losses are to be reduced by salvage and reinsurance recovered during the taxable year. This amount is adjusted to reflect changes in discounted unpaid losses on nonlife insurance contracts and in unpaid losses on life insurance contract. An adjustment is then made to reflect any changes in discounted estimated salvage recoverable and in reinsurance recoverable.

Pursuant to § 832(b), the amount of estimated salvage is

determined on a discounted basis in accordance with procedures established by the Secretary.

SEC. 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount estimated salvage recoverable under § 832. SEC. 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for the 1997 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 1997, which is 6.33 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. The discount factors for the 1997 accident year have been adjusted to take into account changes in the groupings of the lines of business on the annual statement. In addition, see Rev. Proc. 98-11, this Bulletin, for an explanation of the treatment of the multiple peril lines.

.02 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own historical experience under § 846.

.03 Tables.

Accident and Health (Other Than Disability Income or Credit Disability Insurance)

The discount factor for all years equals 96.9777 percent.

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Auto Physical Damage

Discount Tax Year Factors (%) AY+ 0 95.5498 AY+ 1 94.0911 AY+ 2 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

Commercial Auto/Truck Liability/Medical

Discount Tax Year Factors (응) AY+ 0 88.0553 AY+ 1 87.1995 AY+ 2 88.9446 AY+ 3 88.2138 AY+ 4 88.0377 AY+ 5 90.4504 85.6730 АҮ+ б AY+ 7 91.3816 AY+ 8 89.7918 AY+ 9 92.4220 AY+10 95.0477 AY+11 96.9777

The discount factor for AY+12 and subsequent years equals 96.9777 percent.

Composite Discount Factors

Year	Discount Factors (%)
0	85.5529
1	83.9261
2	83.4985
3	83.3876
4	84.1370
5	84.7213
6	84.7741
7	84.8647
8	87.7469
9	90.3325
_0	92.9868
1	95.6242
2	96.9777
	1 2 3 4 5 6 7 8

The discount factor for AY+13 and subsequent years equals 96.9777 percent.

Fidelity/Surety

Tax	Year	Discount Factors (%)
AY+ AY+ AY+	1	92.7512 94.0911 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

Financial Guaranty/Mortgage Guaranty

Tax	Year	Discount Factors (%)
AY+ AY+ AY+	1	94.6118 94.0911 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

International (Composite)

Tax	Year	Discount Factors (%)
AY+	0	85.5529
AY+	1	83.9261
AY+	2	83.4985
AY+	3	83.3876
AY+	4	84.1370
AY+	5	84.7213
AY+	6	84.7741
AY+	7	84.8647
AY+	8	87.7469
AY+	9	90.3325
AY+1	0	92.9868
AY+1	.1	95.6242
AY+1	.2	96.9777

The discount factor for AY+13 and subsequent years equals 96.9777 percent.

Medical Malpractice -- Claims-Made

Discount Tax Year Factors (%) AY+ 0 69.7444 72.4408 AY+ 1 AY+ 2 70.9597 AY+ 3 70.2975 AY+ 4 73.8865 AY+ 5 72.2143 AY+ 6 82.0526 AY+ 7 91.3471 96.2732 AY+ 8 AY+ 9 96.9777

The discount factor for AY+10 and subsequent years equals 96.9777 percent.

Medical Malpractice -- Occurrence

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+	6 7 8 9	63.4849 66.8754 71.4631 75.2927 72.0433 78.1594 83.1757 86.3387 90.8773 93.5843 96.3144 96.9777

The discount factor for AY+12 and subsequent years equals 96.9777 percent.

Miscellaneous Casualty

Discount Tax Year Factors (%) AY+ 0 94.9505 AY+ 1 94.0911 AY+ 2 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

Multiple Peril Lines (Homeowners/Farmowners Multiple Peril, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))

Tax Year Fa (왕	5)
AY+ 1 87 AY+ 2 87 AY+ 3 87 AY+ 3 87 AY+ 4 88 AY+ 4 88 AY+ 5 90 AY+ 6 90 AY+ 7 89 AY+ 8 91 AY+ 9 94	8.1442 7.0828 7.8621 7.5115 8.6539 9.1258 9.1258 9.0542 1.5003 8.2350 5.9777

The discount factor for AY+11 and subsequent years equals 96.9777 percent.

Other (Including Credit)

Discount Tax Year Factors (%) AY+ 0 96.0160 AY+ 1 94.0911 AY+ 2 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

Other Liability -- Claims-Made

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+ AY+	7 8 9	77.1913 82.7511 81.7452 79.3754 82.4055 87.1445 85.6308 91.3857 93.5459 96.2673 96.9777

The discount factor for AY+11 and subsequent years equals 96.9777 percent.

Other Liability -- Occurrence

Discount Tax Year Factors (응) 78.1808 AY+ 0 AY+ 1 78.9149 81.3348 AY+ 2 AY+ 3 83.3371 AY+ 4 84.6107 AY+ 5 82.1372 АҮ+ б 86.2972 AY+ 7 88.2925 AY+ 8 92.4786 AY+ 9 95.1025 96.9777 AY+10

The discount factor for AY+11 and subsequent years equals 96.9777 percent.

Private Passenger Auto Liability/Medical

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+		91.4258 90.8687 89.9218 89.5302 89.0574 89.5204 88.2913 89.0287 89.7296 92.3587 94.9871 96.9777

The discount factor for AY+12 and subsequent years equals 96.9777 percent.

Products Liability -- Claims-Made

Tax	Year	Discount Factors (%)
AY+	0	78.6232
AY+	1	80.6940
AY+	2	85.2594
AY+	3	85.1672
AY+	4	80.6815
AY+	5	87.8085
AY+	6	80.3554
AY+	7	87.9607
AY+	8	96.6992
AY+	9	96.9777

The discount factor for AY+10 and subsequent years equals 96.9777 percent.

Products Liability -- Occurrence

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+ AY+ AY+ AY+ AY+1 AY+1 AY	7 8 9 10 11 12	75.1149 77.7623 76.1078 77.4296 79.2166 78.5502 79.9464 71.9235 77.4789 79.9620 82.6312 85.5373 88.7650 92.4698
AY+1	L4	96.9777

The discount factor for AY+15 and subsequent years equals 96.9777 percent.

Reinsurance A (Nonproportional Property)

Tax	Year	Discount Factors (%)
AY+	0	86.2624
AY+	1	89.5106
AY+	2	92.2926
AY+	3	91.6380
AY+	4	78.5001
AY+	5	94.6795
AY+	6	93.2638
AY+	7	95.9330
AY+	8	96.9777

The discount factor for AY+9 and subsequent years equals 96.9777 percent.

Reinsurance B (Nonproportional Liability)

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+ AY+ AY+	6 7 8 9	74.1864 76.4932 77.2282 76.6129 79.1554 74.1193 75.9021 83.5464 86.0047 88.5652 91.2350 94.0259
AY+1		96.9777

The discount factor for AY+13 and subsequent years equals 96.9777 percent.

Reinsurance C (Financial Lines)

Discount Tax Year Factors (응) AY+ 0 80.6765 83.1043 AY+ 1 AY+ 2 86.4423 AY+ 3 92.4514 AY+ 4 90.9915 AY+ 5 92.9165 AY+ 6 89.3489 AY+ 7 96.8614 96.9777 AY+ 8

The discount factor for AY+9 and subsequent years equals 96.9777 percent.

Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Glass, Burglary and Theft)

Discount Tax Year Factors (%) AY+ 0 92.0611 AY+ 1 94.0911 AY+ 2 96.9777

The discount factor for AY+3 and subsequent years equals 96.9777 percent.

Workers' Compensation

Discount Tax Year Factors (응) AY+ 0 78.0209 AY+ 1 80.4915 AY+ 2 82.4316 AY+ 3 84.0275 AY+ 4 84.1405 AY+ 5 84.3058 AY+ 6 85.5062 AY+ 7 86.2679 AY+ 8 88.7269 AY+ 9 91.3845 AY+10 94.1425 AY+11 96.9777

The discount factor for AY+12 and subsequent years equals 96.9777 percent.

SEC. 5. EFFECTIVE DATE

This revenue procedure is effective for taxable years

beginning after December 31, 1996.

DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of Assistant Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Hossofsky on (202) 622-3970 (not a toll-free call).