26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.

Rev. Proc. 99–30

SECTION 1. PURPOSE

This revenue procedure provides the domestic asset/liability percentages and domestic investment yields needed by foreign life insurance companies and foreign property and liability insurance companies to compute their minimum effectively connected net investment income under section 842(b) of the Internal Revenue Code for taxable years beginning after December 31, 1997. Instructions are provided for computing foreign insurance companies' liabilities for the estimated tax and installment payments of estimated tax for taxable years beginning after December 31, 1997. For more specific guidance regarding the computation of the amount of net investment income to be included by a foreign insurance company on its U.S. income tax return, see Notice 89–96, 1989–2 C.B. 417. For the domestic asset/liability percentage and domestic investment yield, as well as instructions for computing foreign insurance companies' liabilities for estimated tax and installment payments of estimated tax for taxable years beginning after December 31, 1996, see Rev. Proc. 98–31, 1998–23 I.R.B. 9.

SECTION 2. CHANGES

.01 DOMESTIC ASSET/LIABILITY PERCENTAGES FOR 1998. The Secretary determines the domestic asset/liability percentage separately for life insurance companies and property and liability insurance companies. For the first taxable year beginning after December 31, 1997, the relevant domestic asset/liability percentages are:

117.4 percent for foreign life insurance companies, and

174.3 percent for foreign property and liability insurance companies.

.02 DOMESTIC INVESTMENT YIELDS FOR 1998. The Secretary is required to prescribe separate domestic investment yields for foreign life insurance companies and for foreign property and liability insurance companies. For the first taxable year beginning after December 31, 1997, the relevant domestic investment yields are:

7.6 percent for foreign life insurance companies, and

5.8 percent for foreign property and liability insurance companies.

.03 SOURCE OF DATA FOR 1998. The section 842(b) percentages to be used for the 1998 tax year are based on tax return data rather than annual statement data.

With regard to future updates of the section 842(b) percentages, the Service noted in Rev. Proc. 98–31 that it was considering the use of statistical sampling techniques to collect data from the tax returns of domestic insurance companies. The sampling technique considered was the same used to select insurance company tax returns in IRS Statistics Division's Publication 16 (section 3 thereof). Although the Service solicited comments in Rev. Proc. 98–31 addressing the use of this statistical sampling technique to calculate the section 842(b) percentages, none were received. The Service has assessed the accuracy of using sampling techniques and found that percentages based on statistical sampling techniques would be reliable. However, the cost of obtaining population estimates of the applicable percentages does not warrant reliance on a sampling technique. Thus, the percentages for the 1998 tax year are based on the population of tax returns.

SECTION 3. APPLICATION — ESTIMATED TAXES

To compute estimated tax and the installment payments of estimated tax due for taxable years beginning after December 31, 1997, a foreign insurance company must compute its estimated tax payments by adding to its income other than net investment income the greater of (i) its net investment income as determined under section 842(b)(5), that is actually effectively connected with the conduct of a trade or business within the United States for the relevant period, or (ii) the minimum effectively connected net investment income under section 842(b) that would result from using the most recently available domestic asset/liability percentage and domestic investment yield. Thus, for installment payments due after the release of this revenue procedure, the domestic asset/liability percentages and the domestic investment yields provided in this revenue procedure must be used to compute the minimum effectively connected net investment income. However, if the due date of an installment is less than 20 days after the date this revenue procedure is published in the Internal Revenue Bulletin, the asset/liability percentages and domestic investment yields provided in Rev. Proc. 98–31 may be used to compute the minimum effectively connected net investment income for such installment. For further guidance in computing estimated tax, see Notice 89–96.

SECTION 4. EFFECTIVE DATE

This revenue procedure is effective for taxable years beginning after December 31, 1997.

DRAFTING INFORMATION

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