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.

### Auto Physical Damage

Tax	Year	Discount 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

Tax	Year	Discount Factors (%)
AY+	8 9 .0	88.0553 87.1995 88.9446 88.2138 88.0377 90.4504 85.6730 91.3816 89.7918 92.4220 95.0477 96.9777

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

### Composite Discount Factors

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+ AY+	.1	85.5529 83.9261 83.4985 83.3876 84.1370 84.7213 84.7741 84.8647 87.7469 90.3325 92.9868 95.6242 96.9777

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

### Fidelity/Surety

Year	Discount Factors (%)
0	92.7512
1	94.0911
2	96.9777
	0

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

### Financial Guaranty/Mortgage Guaranty

Tax	Year	Discount Factors (%)
AY+	0	94.6118
AY+	1	94.0911
AY+	2	96.9777

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

# International (Composite)

Tax	Year	Discount Factors (%)
AY+ AY+ AY+ AY+ AY+	8 9 L0	85.5529 83.9261 83.4985 83.3876 84.1370 84.7213 84.7741 84.8647 87.7469 90.3325 92.9868 95.6242
AY+1	L2	96.9777

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

### Medical Malpractice -- Claims-Made

Tax	Year	Discount Factors (%)
AY+	0	69.7444
AY+	1	72.4408
AY+	2	70.9597
AY+	3	70.2975
AY+	4	73.8865
AY+	5	72.2143
AY+	6	82.0526
AY+	7	91.3471
AY+	8	96.2732
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+	8 9 L0	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

Tax	Year	Discount 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	Discount Factors (%)
AY+	0	88.1442
AY+	1	87.0828
AY+	2	87.8621
AY+	3	87.5115
AY+	4	88.6539
AY+	5	90.1258
AY+	6	90.1198
AY+	7	89.0542
AY+	8	91.5003
AY+	9	94.2350
AY+1	LO	96.9777

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

### Other (Including Credit)

Tax	Year	Discount 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

Factors (%)
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

Tax	Year	Discount Factors (%)
AY+	0	78.1808
AY+	1	78.9149
AY+	2	81.3348
AY+	3	83.3371
AY+	4	84.6107
AY+	5	82.1372
AY+	6	86.2972
AY+	7	88.2925
AY+	8	92.4786
AY+	9	95.1025
AY+1	LO	96.9777

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

# Private Passenger Auto Liability/Medical

Tax Y		Discount Factors (%)
AY+ 0 AY+ 1 AY+ 2 AY+ 3 AY+ 6 AY+ 6 AY+ 6 AY+ 8 AY+ 8 AY+ 8 AY+ 10 AY+11	2 2 3 1 5 5 7 7 8 8	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+	0	75.1149
AY+	1	77.7623
AY+	2	76.1078
AY+	3	77.4296
AY+	4	79.2166
AY+	5	78.5502
AY+	6	79.9464
AY+	7	71.9235
AY+	8	77.4789
AY+	9	79.9620
AY+1	. 0	82.6312
AY+1	.1	85.5373
AY+1	.2	88.7650
AY+1	. 3	92.4698
AY+1	.4	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+ AY+	8	74.1864 76.4932 77.2282 76.6129 79.1554 74.1193 75.9021 83.5464 86.0047 88.5652 91.2350
AY+1 AY+1 AY+1	1	94.0259 96.9777

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

### Reinsurance C (Financial Lines)

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

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)

Tax	Year	Discount 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

Tax	Year	Discount Factors (%)
AY+		78.0209 80.4915 82.4316 84.0275 84.1405 84.3058 85.5062 86.2679 88.7269 91.3845 94.1425 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

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Institutions & Products). For further information regarding this

revenue procedure, contact Ms. Hossofsky on (202) 622-3970 (not a toll-free call).