

## Part I

### Section 7872.--Treatment of Loans with Below-Market Interest Rates

#### Rev. Rul. 2003-118

This revenue ruling publishes the amount that §7872(g) of the Internal Revenue Code permits a taxpayer to lend to a qualified continuing care facility without incurring imputed interest. The amount is adjusted for inflation for the years after 1986.

Section 7872 generally treats loans bearing a below-market interest rate as if they bore interest at the market rate.

Section 7872(g)(1) provides that, in general, § 7872 does not apply for any calendar year to any below-market loan made by a lender to a qualified continuing care facility pursuant to a continuing care contract if the lender (or the lender's spouse) attains age 65 before the close of the year.

Section 7872(g)(2) provides that, in the case of loans made after October 11, 1985, and before 1987, § 7872(g)(1) applies only to the extent that the aggregate outstanding amount of any loan to which § 7872(g) applies (determined without regard to § 7872(g)(2)), when added to the aggregate outstanding amount of all other previous loans between the lender (or the lender's spouse) and any qualified continuing care facility to which § 7872(g)(1) applies, does not exceed \$90,000.

Section 7872(g)(5) provides that, for loans made during any calendar year after 1986 to which § 7872(g)(1) applies, the \$90,000 limit specified in § 7872(g)(2) is increased by an inflation adjustment. The inflation adjustment for any calendar year is the percentage (if any) by which the Consumer Price Index (CPI) for the preceding calendar year exceeds the CPI for calendar year 1985. Section 7872(g)(5) states that the CPI for any calendar year is the average of the CPI as of the close of the 12-month period ending on September 30 of that calendar year.

Table 1 sets forth the amount specified in §7872(g)(2) of the Code. The amount is increased by the inflation adjustment for the years 1987-2004.

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TABLE 1

Limit under § 7872(g)(2)

Year	Amount
Before 1987	\$ 90,000
1987	\$ 92,200
1988	\$ 94,800
1989	\$ 98,800
1990	\$103,500
1991	\$108,600
1992	\$114,100
1993	\$117,500
1994	\$121,100
1995	\$124,300
1996	\$127,800
1997	\$131,300
1998	\$134,800
1999	\$137,000
2000	\$139,700
2001	\$144,100
2002	\$148,800
2003	\$151,000
2004	\$154,500

Note: These inflation adjustments were computed using the All-Urban, Consumer Price Index 1982-1984 base, published by the Bureau of Labor Statistics.

## EFFECT ON OTHER DOCUMENTS

Rev. Rul. 2002-78, 2002-48 I.R.B. 915, is supplemented and superseded.

## DRAFTING INFORMATION

The author of this revenue ruling is Avital Grunhaus of the Office of the Associate Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling, please contact Mrs. Grunhaus on (202) 622-3940 (not a toll-free call).