

## Part III

### Administrative, Procedural, and Miscellaneous

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

Rev. Proc. 2005-73

#### SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2005 accident year. These factors must be used to compute 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

contracts. 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 2005 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2005, which is 4.44 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. See Rev. Proc. 2003-18, 2003-6 I.R.B. 439, for background regarding the tables.

.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 Section V of Notice 88-100, 1988-2 C.B. 439, provides a composite discount factor to be used in determining the discounted unpaid losses for accident years that are not separately reported on the NAIC Annual Statement. The tables separately provide discount factors for taxpayers who elect to use the composite method. Rev. Proc. 2002-74, 2002-51 I.R.B. 980, clarifies that for certain insurance companies subject to tax under § 831 the composite method for discounting unpaid losses set forth in Notice 88-100, section V, 1988-2 C.B. 419, is permitted but not required. This revenue procedure further provides alternative methods for computing discounted unpaid losses that are permitted for insurance companies not using the composite

method, and sets forth a procedure for insurance companies to obtain automatic consent of the Commissioner to change to one of the methods described in Rev. Proc. 2002-74.

.04 Tables.

**Tables of Factors to be Used to Discount  
Salvage Recoverable With Respect to Losses Incurred in  
Accident Year 2005**

**(Interest rate: 4.44 percent)**

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

Taxpayers that do not use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2005 accident year as of the end of the 2005 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount all salvage recoverable in this line of business as of the end of the 2005 taxable year.

**Auto Physical Damage**

Tax Year	Discount Factors (%)
2005	96.8175
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Commercial Auto/Truck Liability/Medical**

Tax Year	Discount Factors (%)
2005	91.3239
2006	91.0477
2007	90.8320
2008	91.3071
2009	91.8090
2010	91.2746
2011	92.4705
2012	93.5064
2013	93.7878
2014	95.8004

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Composite**

Tax Year	Discount Factors (%)
2005	91.2231
2006	89.9591
2007	89.4423
2008	88.8551
2009	87.7165
2010	87.7929
2011	87.5509
2012	87.5159
2013	87.6545
2014	89.4906

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	91.3750
2016	93.3052
2017	95.2703
2018	97.2162
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Fidelity/Surety**

Tax Year	Discount Factors (%)
2005	93.6793
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Financial Guaranty/Mortgage Guaranty**

Tax Year	Discount Factors (%)
2005	95.0705
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.



**International (Composite)**

Tax Year	Discount Factors (%)
2005	91.2231
2006	89.9591
2007	89.4423
2008	88.8551
2009	87.7165
2010	87.7929
2011	87.5509
2012	87.5159
2013	87.6545
2014	89.4906

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	91.3750
2016	93.3052
2017	95.2703
2018	97.2162
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice -- Claims-Made**

Tax Year	Discount Factors (%)
2005	86.4755
2006	81.7167
2007	86.5261
2008	84.1162
2009	85.1368
2010	79.5241
2011	89.5664
2012	92.5368
2013	96.0623
2014	97.8513

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice -- Occurrence**

Tax Year	Discount Factors (%)
2005	82.3660
2006	83.5715
2007	87.2656
2008	88.7913
2009	76.0729
2010	86.2799
2011	91.5010
2012	94.5994
2013	96.3703
2014	97.8513

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Miscellaneous Casualty**

Tax Year	Discount Factors (%)
2005	96.3339
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

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

Tax Year	Discount Factors (%)
2005	92.1974
2006	90.4717
2007	91.2273
2008	90.9380
2009	90.5278
2010	91.7899
2011	91.8465
2012	92.0455
2013	93.6189
2014	95.6204

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	97.6492
2016 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 97.6503 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other (Including Credit)**

Tax Year	Discount Factors (%)
2005	96.5291
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability -- Claims-Made**

Tax Year	Discount Factors (%)
2005	90.7061
2006	81.3335
2007	67.4471
2008	88.0410
2009	84.4392
2010	83.6931
2011	89.9416
2012	93.4492
2013	90.2612
2014	92.1610

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	94.1004
2016	96.0538
2017 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 95.1292 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability -- Occurrence**

Tax Year	Discount Factors (%)
2005	85.5304
2006	86.9478
2007	88.0380
2008	84.7457
2009	88.1991
2010	90.6498
2011	91.0248
2012	93.0642
2013	94.3646
2014	96.2845

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.



**Private Passenger Auto Liability/Medical**

	Discount
Tax Year	Factors (%)
2005	94.1806
2006	93.9873
2007	93.7150
2008	92.9128
2009	92.6982
2010	91.6917
2011	91.6408
2012	91.7062
2013	92.8870
2014	94.8239

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	96.7269
2016 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 96.9284 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability -- Claims-Made**

Tax Year	Discount Factors (%)
2005	86.9346
2006	86.9867
2007	88.6095
2008	14.1032
2009	80.6321
2010	86.8941
2011	91.3609
2012	95.4486
2013	30.7119
2014	95.8584

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability -- Occurrence**

Tax Year	Discount Factors (%)
2005	81.4063
2006	83.9954
2007	84.6302
2008	87.2364
2009	84.7065
2010	88.1295
2011	91.1267
2012	91.8405
2013	86.5573
2014	88.3625

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	90.2160
2016	92.1163
2017	94.0579
2018	96.0181
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 93.2359 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance A (Nonproportional Assumed Property)**

Tax Year	Discount Factors (%)
2005	86.3118
2006	83.4802
2007	87.5160
2008	91.1738
2009	91.8031
2010	93.5092
2011	95.2399
2012	96.4668
2013	97.0401
2014	97.8513

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance B (Nonproportional Assumed Liability)**

Tax Year	Discount Factors (%)
2005	85.7554
2006	83.4923
2007	86.6760
2008	84.5425
2009	77.7160
2010	81.2321
2011	80.6015
2012	82.8262
2013	77.8936
2014	85.2736

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	87.3145
2016	89.5053
2017	91.9023
2018	94.6103
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 89.5188 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance C (Nonproportional Assumed Financial Lines)**

Tax Year	Discount Factors (%)
2005	85.5377
2006	86.2730
2007	89.6741
2008	87.1586
2009	90.2843
2010	83.5843
2011	86.7077
2012	93.3620
2013	94.6849
2014	96.5870

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

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

Tax Year	Discount Factors (%)
2005	94.0942
2006	95.7713

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2007 and later years	97.8513
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

## Workers' Compensation

Tax Year	Discount Factors (%)
2005	86.3894
2006	87.6481
2007	88.0853
2008	88.0120
2009	87.3618
2010	88.1750
2011	87.9837
2012	88.1613
2013	88.9764
2014	90.8396

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

2015	92.7444
2016	94.6769
2017	96.5791
2018 and later years	97.8513

Taxpayers that use the composite method of Notice 88-100 should use 94.0730 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Hossofsky at (202)622-8435 (not a toll free call).