

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. 2011-54

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2011 accident year. These factors must be used to compute discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

SECTION 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.

SECTION 3. SCOPE

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

SECTION 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for the 2011 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2011, which is 3.46 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. See Rev. Proc. 2008-11, 2008-1 C.B. 301, 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 annual statement approved by the National Association of Insurance Commissioners. The tables separately provide discount factors for taxpayers who elect to use the composite method. Rev. Proc. 2002-74, 2002-2 C.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, 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 2011**

(Interest rate: 3.46 percent)

Lines of Business

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 98.3136 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2011 accident year as of the end of the 2011 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount all salvage recoverable in this line of business as of the end of the 2011 taxable year.

Auto Physical Damage

Tax Year	Discount Factors (%)
2011	97.6275
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
2011	93.3955
2012	93.3497
2013	93.6495
2014	93.9535
2015	94.5922
2016	94.4105
2017	93.0655
2018	93.8651
2019	96.7732
2020	98.3136

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Composite

Tax Year	Discount Factors (%)
2011	93.4039
2012	93.1846
2013	93.0306
2014	92.8794
2015	92.3429
2016	91.5493
2017	92.2931
2018	93.4656
2019	95.2188
2020	96.7927

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Fidelity/Surety

Tax Year	Discount Factors (%)
2011	94.5806
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Financial Guaranty/Mortgage Guaranty

Tax Year	Discount Factors (%)
2011	95.4821
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

International (Composite)

Tax Year	Discount Factors (%)
2011	93.4039
2012	93.1846
2013	93.0306
2014	92.8794
2015	92.3429
2016	91.5493
2017	92.2931
2018	93.4656
2019	95.2188
2020	96.7927

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Medical Malpractice -- Claims-Made

Tax Year	Discount Factors (%)
2011	93.6663
2012	94.5958
2013	93.2150
2014	93.7553
2015	93.1492
2016	89.3501
2017	86.4691
2018	91.6464
2019	96.9508
2020	98.3136

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Medical Malpractice -- Occurrence

Tax Year	Discount Factors (%)
2011	87.4530
2012	91.2904
2013	93.3358
2014	86.4191
2015	95.5109
2016	92.6085
2017	93.9918
2018	96.4593
2019	97.5134
2020	98.3136

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Miscellaneous Casualty

Tax Year	Discount Factors (%)
2011	97.0682
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 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 (%)
2011	93.9591
2012	93.4315
2013	93.3624
2014	93.3066
2015	92.6060
2016	91.2535
2017	92.2618
2018	94.3624
2019	95.5747
2020	97.0967

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Other (Including Credit)

Tax Year	Discount Factors (%)
2011	96.2595
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Other Liability -- Claims-Made

Tax Year	Discount Factors (%)
2011	89.9640
2012	90.9400
2013	89.3209
2014	92.1248
2015	93.4120
2016	95.0362
2017	94.1167
2018	92.9293
2019	97.7390
2020	98.3136

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Other Liability -- Occurrence

Tax Year	Discount Factors (%)
2011	88.8323
2012	89.7443
2013	91.7691
2014	92.4298
2015	91.9481
2016	92.0560
2017	91.6100
2018	93.9815
2019	96.3629
2020	97.9202

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Private Passenger Auto Liability/Medical

Tax Year	Discount Factors (%)
2011	95.2907
2012	95.3106
2013	95.0938
2014	94.3448
2015	93.8406
2016	93.1778
2017	93.9588
2018	95.3067
2019	95.3731
2020	96.9202

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Products Liability -- Claims-Made

Tax Year	Discount Factors (%)
2011	90.3287
2012	57.4781
2013	59.7457
2014	91.9244
2015	82.7270
2016	92.5554
2017	64.8394
2018	91.7750
2019	92.7747
2020	93.7745

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 2011 accident year.

2021	95.3256
2022	96.8802
2023 and later years	98.3136

Taxpayers that use the composite method of Notice 88-100 should use 96.1358 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Products Liability -- Occurrence

Tax Year	Discount Factors (%)
2011	89.2922
2012	91.1086
2013	92.7443
2014	93.4548
2015	93.8417
2016	91.7263
2017	92.2857
2018	94.8423
2019	95.0804
2020	96.6835

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Reinsurance -- Nonproportional Assumed Property

Tax Year	Discount Factors (%)
2011	92.3051
2012	93.7306
2013	96.2743
2014	82.6967
2015	91.1729
2016	83.9159
2017	57.7951
2018	93.7915
2019	76.8594
2020	89.7124

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 2011 accident year.

2021	91.2427
2022	92.8279
2023	94.4867
2024	96.2644
2025 and later years	98.3136

Taxpayers that use the composite method of Notice 88-100 should use 93.2014 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Reinsurance -- Nonproportional Assumed Liability

Tax Year	Discount Factors (%)
2011	88.5261
2012	91.3783
2013	92.6425
2014	90.1633
2015	91.9672
2016	92.7246
2017	92.6419
2018	94.1716
2019	95.8463
2020	97.3545

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Reinsurance -- Nonproportional Assumed Financial Lines

Tax Year	Discount Factors (%)
2011	88.8405
2012	87.7511
2013	91.2356
2014	81.3485
2015	91.5590
2016	82.9553
2017	91.7407
2018	92.1114
2019	97.8713
2020	98.3136

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 2011 accident year.

2021 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

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

Tax Year	Discount Factors (%)
2011	95.6046
2012	96.6697

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 2011 accident year.

2013 and later years	98.3136
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 98.3136 percent to discount salvage recoverable as of the end of the 2013 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

Workers' Compensation

Tax Year	Discount Factors (%)
2011	89.9261
2012	91.7002
2013	92.3933
2014	92.3172
2015	91.0146
2016	89.7934
2017	90.3201
2018	90.0878
2019	91.9867
2020	93.5222

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 2011 accident year.

2021	95.0909
2022	96.6917
2023 and later years	98.3136

Taxpayers that use the composite method of Notice 88-100 should use 96.0008 percent to discount salvage recoverable as of the end of the 2021 taxable year with respect to losses incurred in this line of business in 2011 and prior years.

DRAFTING INFORMATION

The principal author of this revenue procedure is Sarah E. Swan of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Swan at (202)622-8443 (not a toll free call).