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+ 0	88.0553
AY+ 1	87.1995
AY+ 2	88.9446
AY+ 3	88.2138
AY+ 4	88.0377
AY+ 5	90.4504
AY+ 6	85.6730
AY+ 7	91.3816
AY+ 8	89.7918
AY+ 9	92.4220
AY+10	95.0477
AY+11	96.9777

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

Composite Discount Factors

Tax Year	Discount Factors (%)
AY+ 0	85.5529
AY+ 1	83.9261
AY+ 2	83.4985
AY+ 3	83.3876
AY+ 4	84.1370
AY+ 5	84.7213
AY+ 6	84.7741
AY+ 7	84.8647
AY+ 8	87.7469
AY+ 9	90.3325
AY+10	92.9868
AY+11	95.6242
AY+12	96.9777

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

Fidelity/Surety

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

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+ 0	85.5529
AY+ 1	83.9261
AY+ 2	83.4985
AY+ 3	83.3876
AY+ 4	84.1370
AY+ 5	84.7213
AY+ 6	84.7741
AY+ 7	84.8647
AY+ 8	87.7469
AY+ 9	90.3325
AY+10	92.9868
AY+11	95.6242
AY+12	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+ 0	63.4849
AY+ 1	66.8754
AY+ 2	71.4631
AY+ 3	75.2927
AY+ 4	72.0433
AY+ 5	78.1594
AY+ 6	83.1757
AY+ 7	86.3387
AY+ 8	90.8773
AY+ 9	93.5843
AY+10	96.3144
AY+11	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+10	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

Tax Year	Discount Factors (%)
AY+ 0	77.1913
AY+ 1	82.7511
AY+ 2	81.7452
AY+ 3	79.3754
AY+ 4	82.4055
AY+ 5	87.1445
AY+ 6	85.6308
AY+ 7	91.3857
AY+ 8	93.5459
AY+ 9	96.2673
AY+10	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+10	96.9777

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

Private Passenger Auto Liability/Medical

Tax Year	Discount Factors (%)
AY+ 0	91.4258
AY+ 1	90.8687
AY+ 2	89.9218
AY+ 3	89.5302
AY+ 4	89.0574
AY+ 5	89.5204
AY+ 6	88.2913
AY+ 7	89.0287
AY+ 8	89.7296
AY+ 9	92.3587
AY+10	94.9871
AY+11	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+10	82.6312
AY+11	85.5373
AY+12	88.7650
AY+13	92.4698
AY+14	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+ 0	74.1864
AY+ 1	76.4932
AY+ 2	77.2282
AY+ 3	76.6129
AY+ 4	79.1554
AY+ 5	74.1193
AY+ 6	75.9021
AY+ 7	83.5464
AY+ 8	86.0047
AY+ 9	88.5652
AY+10	91.2350
AY+11	94.0259
AY+12	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+ 0	78.0209
AY+ 1	80.4915
AY+ 2	82.4316
AY+ 3	84.0275
AY+ 4	84.1405
AY+ 5	84.3058
AY+ 6	85.5062
AY+ 7	86.2679
AY+ 8	88.7269
AY+ 9	91.3845
AY+10	94.1425
AY+11	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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revenue procedure, contact Ms. Hossofsky on (202) 622-3970 (not a toll-free call).