

able to the policyholders upon cancellation of the term accident and health insurance contracts. The nonlife insurance company at all times had a legal obligation to return the stabilization reserves to its policyholders to the extent that the stabilization reserves were not used to purchase future coverage. Thus, stabilization reserves are not part of the nonlife company's surplus.

HOLDING

A non-life insurance company's surplus does not include amounts held in a stabilization reserve of the type described above.

EFFECT ON OTHER DOCUMENTS

Rev. Rul. 70-480 is revoked.

DRAFTING INFORMATION

The principal author of this revenue ruling is Gary Geisler of the Office of the Assistant Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling contact Mr. Geisler on (202) 622-3970 (not a toll-free call).

Section 832.—Insurance Company Taxable Income

26 CFR 1.832-4: *Gross Income.*

Insurance companies; premium stabilization reserves. A non-life-insurance company's surplus does not include amounts held on behalf of a group of insureds in a premium stabilization reserve. Rev. Rul. 70-480, revoked.

Rev. Rul. 97-5

Rev. Rul. 70-480, 1970-2 C.B. 142, provides that amounts held by a nonlife insurance company in a "stabilization reserve" funded with credits on retrospectively rated term insurance contracts are not taken into account in determining the company's unearned premiums under § 832(b)(4) of the Internal Revenue Code. Rev. Rul. 70-480 concludes that stabilization reserves are not unearned premiums because the credits retained by the insurance company to fund the stabilization reserves came into being after the relevant risk period expired and thus were part of the company's earned premiums. Rev. Rul. 70-480 further states that the company's earned premiums less its costs and expenses constitute part of its surplus, which is available to pay policyholder dividends. Rev. Rul. 70-480 thus treats the stabilization reserves as part of the company's surplus.

Rev. Rul. 70-480's conclusion that the stabilization reserves are part of the insurance company's surplus is erroneous. The stabilization reserves are avail-