

Rev. Proc. 2004-10

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2003 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 2003 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2003, which is 5.27 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, 2002-2 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, 1988-2 C.B. 439, 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.

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 97.4648 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2003 accident year as of the end of the 2003 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 97.4648 percent to discount all salvage recoverable in this line of business as of the end of the 2003 taxable year.

Auto Physical Damage

Tax Year	Discount Factors (%)
2003	96.2554
2004	95.0251

Auto Physical Damage

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 2003 accident year.

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 and prior years.

Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
2003	89.8985
2004	89.5760
2005	89.3200
2006	89.8660
2007	90.4447
2008	89.8117
2009	91.1941
2010	92.3941
2011	92.7106
2012	95.0592

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88-100 should use 97.4648 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 2003 and prior years.

Composite

Tax Year	Discount Factors (%)
2003	89.8098
2004	88.3565
2005	87.7654
2006	87.0910
2007	85.7719
2008	85.8519
2009	85.5584
2010	85.4976
2011	85.6301
2012	87.7378

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 2003 accident year.

2013	89.9120
2014	92.1502
2015	94.4404
2016	96.7198
2017 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 91.2442 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 2003 and prior years.

Fidelity/Surety

Tax Year	Discount Factors (%)
2003	92.5838
2004	95.0251

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 2003 accident year.

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 and prior years.

Financial Guaranty/Mortgage Guaranty

Tax Year	Discount Factors (%)
2003	94.2115
2004	95.0251

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 2003 accident year.

Financial Guaranty/Mortgage Guaranty

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 and prior years.

International (Composite)

Tax Year	Discount Factors (%)
2003	89.8098
2004	88.3565
2005	87.7654
2006	87.0910
2007	85.7719
2008	85.8519
2009	85.5584
2010	85.4976
2011	85.6301
2012	87.7378

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 2003 accident year.

International (Composite)

2013	89.9120
2014	92.1502
2015	94.4404
2016	96.7198
2017 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 91.2442 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 2003 and prior years.

Medical Malpractice — Claims-Made

Tax Year	Discount Factors (%)
2003	84.3980
2004	78.8909
2005	84.4191
2006	81.6093
2007	82.7520
2008	76.1578
2009	87.8015
2010	91.2457
2011	95.3664
2012	97.4648

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

Medical Malpractice — Occurrence

Tax Year	Discount Factors (%)
2003	79.6421
2004	80.9952
2005	85.2445
2006	87.0038
2007	72.1989
2008	83.9897
2009	90.0478
2010	93.6582
2011	95.7277
2012	97.4648

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

Miscellaneous Casualty

Tax Year	Discount Factors (%)
2003	95.6896
2004	95.0251

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 2003 accident year.

Miscellaneous Casualty

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 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 (%)
2003	90.9145
2004	88.9102
2005	89.7851
2006	89.4452
2007	88.9585
2008	90.4184
2009	90.4744
2010	90.6908
2011	92.5143
2012	94.8490

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 2003 accident year.

2013	97.2277
2014 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 97.2293 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 2003 and prior years.

Other (Including Credit)

Tax Year	Discount Factors (%)
----------	----------------------

2003	95.9179
2004	95.0251

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 2003 accident year.

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 and prior years.

Other Liability — Claims-Made

Tax Year	Discount Factors (%)
----------	----------------------

2003	89.2780
2004	78.5075
2005	62.4035
2006	86.1485
2007	81.9557
2008	81.0354
2009	88.2681
2010	92.3506
2011	88.6256
2012	90.8220

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 2003 accident year.

Other Liability — Claims-Made

2013	93.0754
2014	95.3564
2015 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 93.8216 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 2003 and prior years.

Other Liability — Occurrence

Tax Year	Discount Factors (%)
----------	----------------------

2003	83.2582
2004	84.8797
2005	86.1298
2006	82.2849
2007	86.2602
2008	89.0916
2009	89.5094
2010	91.8747
2011	93.3837
2012	95.6270

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

Private Passenger Auto Liability/Medical

Tax Year	Discount Factors (%)
----------	----------------------

2003	93.1921
2004	92.9705
2005	92.6585
2006	91.7286
2007	91.4818
2008	90.3084
2009	90.2405
2010	90.3023
2011	91.6647
2012	93.9196

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 2003 accident year.

2013	96.1460
2014 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 96.3834 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 2003 and prior years.

Products Liability — Claims-Made

Tax Year	Discount Factors (%)
----------	----------------------

2003	84.9166
2004	84.9800
2005	86.8647
2006	0.7583
2007	77.5029
2008	84.7211
2009	89.8996
2010	94.6740
2011	18.9104
2012	95.1273

Products Liability — Claims-Made

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

Products Liability — Occurrence

Tax Year	Discount Factors (%)
2003	78.5645
2004	81.5171
2005	82.2229
2006	85.2182
2007	82.2629
2008	86.2042
2009	89.6780
2010	90.5149
2011	84.3756
2012	86.4415

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 2003 accident year.

2013	88.5733
2014	90.7701
2015	93.0258
2016	95.3146
2017 and later years	97.4648

Products Liability — Occurrence

Taxpayers that use the composite method of Notice 88–100 should use 91.4228 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 2003 and prior years.

Reinsurance A (Nonproportional Assumed Property)

Tax Year	Discount Factors (%)
2003	84.1377
2004	80.8145
2005	85.4580
2006	89.6948
2007	90.4119
2008	92.3911
2009	94.4085
2010	95.8429
2011	96.5134
2012	97.4648

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

Reinsurance B (Nonproportional Assumed Liability)

Tax Year	Discount Factors (%)
2003	83.6204
2004	81.0240
2005	84.6899
2006	82.2606
2007	74.4127
2008	78.4098
2009	77.6451
2010	80.1689
2011	74.4036
2012	82.8920

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 2003 accident year.

2013	85.2223
2014	87.7390
2015	90.5105
2016	93.6633
2017 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 88.3351 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 2003 and prior years.

Reinsurance C (Nonproportional Assumed Financial Lines)

Tax Year	Discount Factors (%)
2003	83.2609
2004	84.0880
2005	88.0193
2006	85.0937
2007	88.7104
2008	80.8979
2009	84.4733
2010	92.2206
2011	93.7574
2012	95.9818

Reinsurance C (Nonproportional Assumed Financial Lines)

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 2003 accident year.

2013 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 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 2003 and prior years.

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

Tax Year	Discount Factors (%)	Tax Year	Discount Factors (%)
		2003	84.2536
2003	93.0692	2004	85.6999
2004	95.0251	2005	86.2016
		2006	86.1127
		2007	85.3503
		2008	86.2797
		2009	86.0424
		2010	86.2260

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

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 2003 accident year.

2005 and later years	97.4648
----------------------	---------

Taxpayers that use the composite method of Notice 88–100 should use 97.4648 percent to discount salvage recoverable as of the end of the 2005 taxable year with respect to losses incurred in this line of business in 2003 and prior years.

Workers' Compensation

Workers' Compensation

2011	87.1469
2012	89.2936

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 2003 accident year.

2013	91.4992
2014	93.7481
2015	95.9726
2016 and later years	97.4648

Taxpayers that use the composite method of Notice 88–100 should use 92.2314 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 2003 and prior years.

DRAFTING INFORMATION

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