

Part III

Administrative, Procedural, and Miscellaneous

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

Rev. Proc. 2016-59

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2016 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 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 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. TABLES OF DISCOUNT FACTORS

.01 The following tables present separately for each line of business the discount factors under § 832 for the 2016 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2016, which is 1.56 percent, and by assuming all estimated salvage is recovered in the middle of the calendar year.

.02 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own experience under § 846(e).

.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. Rev. Proc. 2002-74 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 therein.

.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 99.2290 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2016 accident year as of the end of the 2016 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount all salvage recoverable in this line of business as of the end of the 2016 taxable year.

Auto Physical Damage

Tax Year	Discount Factors (%)
2016	98.9012
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
2016	97.1365
2017	96.8308
2018	97.0777
2019	96.7064
2020	96.9932
2021	96.8099
2022	94.3972
2023	93.3971
2024	94.9982
2025	95.7201

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 2016 accident year.

2026	96.4475
2027	97.1788
2028	97.9099
2029	98.6269
2030 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 97.1357 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Composite

Tax Year	Discount Factors (%)
2016	96.9439
2017	96.8171
2018	96.9416
2019	96.0697
2020	96.3473
2021	96.0938
2022	96.0154
2023	96.3954
2024	96.4109
2025	97.1429

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 2016 accident year.

2026	97.8757
2027	98.5976
2028 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 98.2524 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Fidelity/Surety

Tax Year	Discount Factors (%)
2016	97.5442
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Financial Guaranty/Mortgage Guaranty

Tax Year	Discount Factors (%)
2016	97.2630
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

International (Composite)

Tax Year	Discount Factors (%)
2016	96.9439
2017	96.8171
2018	96.9416
2019	96.0697
2020	96.3473
2021	96.0938
2022	96.0154
2023	96.3954
2024	96.4109
2025	97.1429

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 2016 accident year.

2026	97.8757
2027	98.5976
2028 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 98.2524 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Medical Professional Liability -- Claims-Made

Tax Year	Discount Factors (%)
2016	96.5406
2017	97.0385
2018	95.6716
2019	97.2703
2020	97.4023
2021	97.6753
2022	98.1949
2023	98.5464
2024	98.5353
2025	99.2290

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Medical Professional Liability -- Occurrence

Tax Year	Discount Factors (%)
2016	96.9122
2017	98.0946
2018	97.7852
2019	98.4996
2020	97.9271
2021	98.7202
2022	98.3540
2023	98.3987
2024	97.3615
2025	98.0900

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 2016 accident year.

2026	98.7938
2027 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 98.8774 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Miscellaneous Casualty

Tax Year	Discount Factors (%)
2016	97.9036
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 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 (%)
2016	97.3546
2017	97.3274
2018	97.6245
2019	96.5274
2020	97.4327
2021	97.7088
2022	97.7950
2023	97.7390
2024	97.5499
2025	99.2290

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Other (Including Credit)

Tax Year	Discount Factors (%)
2016	98.3183
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Other Liability -- Claims-Made

Tax Year	Discount Factors (%)
2016	96.4147
2017	96.6325
2018	96.6603
2019	97.3254
2020	97.3517
2021	97.4480
2022	98.0897
2023	98.0735
2024	98.2338
2025	98.9443

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Other Liability – Occurrence

Tax Year	Discount Factors (%)
2016	94.5756
2017	95.2376
2018	95.9306
2019	96.3122
2020	96.7612
2021	97.3807
2022	97.4860
2023	97.4330
2024	98.5057
2025	99.2290

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Private Passenger Auto Liability/Medical

Tax Year	Discount Factors (%)
2016	97.8611
2017	97.7880
2018	97.7715
2019	97.4240
2020	97.4156
2021	97.4991
2022	97.3643
2023	97.5496
2024	98.2703
2025	98.9853

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Products Liability -- Claims-Made

Tax Year	Discount Factors (%)
2016	94.2878
2017	95.1999
2018	94.1633
2019	97.2406
2020	96.0735
2021	99.0044
2022	97.9881
2023	91.9449
2024	99.0448
2025	99.2290

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Products Liability -- Occurrence

Tax Year	Discount Factors (%)
2016	94.7954
2017	94.8540
2018	95.3519
2019	96.1073
2020	96.4444
2021	96.9520
2022	96.9120
2023	98.1796
2024	97.8452
2025	98.5720

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Reinsurance -- Nonproportional Assumed Property

Tax Year	Discount Factors (%)
2016	96.0218
2017	97.3451
2018	96.1342
2019	95.4143
2020	96.6974
2021	96.1040
2022	98.3107
2023	94.5059
2024	97.7680
2025	98.5096

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Reinsurance -- Nonproportional Assumed Liability

Tax Year	Discount Factors (%)
2016	92.8739
2017	94.2242
2018	91.1182
2019	91.9045
2020	95.3016
2021	97.0444
2022	96.5643
2023	96.8858
2024	95.8989
2025	98.1496

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 2016 accident year.

2026	98.8541
2027 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 98.9166 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Reinsurance -- Nonproportional Assumed Financial Lines

Tax Year	Discount Factors (%)
2016	93.3899
2017	94.3763
2018	96.4484
2019	96.5268
2020	97.3112
2021	96.2333
2022	97.3277
2023	97.2956
2024	99.1055
2025	99.2290

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 2016 accident year.

2026 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

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

Tax Year	Discount Factors (%)
2016	97.9965
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Warranty

Tax Year	Discount Factors (%)
2016	97.7297
2017	98.4669

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 2016 accident year.

2018 and later years	99.2290
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Taxpayers that use the composite method of Notice 88-100 should use 99.2290 percent to discount salvage recoverable as of the end of the 2018 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

Workers' Compensation

Tax Year	Discount Factors (%)
2016	95.1952
2017	96.0854
2018	96.5588
2019	95.7091
2020	95.3661
2021	94.9814
2022	95.3348
2023	96.1542
2024	96.3142
2025	97.0492

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 2016 accident year.

2026	97.7882
2027	98.5257
2028 and later years	99.2290

Taxpayers that use the composite method of Notice 88-100 should use 98.2013 percent to discount salvage recoverable as of the end of the 2026 taxable year with respect to losses incurred in this line of business in 2016 and prior years.

SECTION 5. DRAFTING INFORMATION

The principal author of this revenue procedure is Sharon Y.Horn of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure contact Ms. Horn at (202) 317-4426 (not a toll free call).