

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

Rev. Proc. 2018-13

## SECTION 1. PURPOSE

This revenue procedure prescribes the unpaid loss discount factors and salvage discount factors for the 2017 accident year for use in taxable years beginning on or before December 31, 2017. These discount factors will be used to compute discounted unpaid losses under § 846 of the Internal Revenue Code and discounted estimated salvage recoverable under § 832, respectively.

This revenue procedure also alerts taxpayers to amendments made to § 846 by section 13523 of “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018” (H.R. 1, P.L. 115-97) (the “Act”). These amendments are effective for taxable years beginning after December 31, 2017.

## SECTION 2. BACKGROUND

### .01 Discounted Unpaid Losses

Section 846 provides that discounted unpaid losses must be separately determined for each accident year of each line of business by applying an interest rate

determined under § 846(c) and the appropriate loss payment pattern to the amount of unpaid losses as measured at the end of the tax year.

Section 846(d) directs the Secretary to use the most recent aggregate loss payment data of property and casualty insurance companies to determine and publish a loss payment pattern for each line of business every five years. This payment pattern is used to discount unpaid losses for the accident year ending with a determination year and for each of the four succeeding accident years.

For taxable years beginning on or before December 31, 2017, § 846(e) allows a taxpayer to make an election in each determination year to use its own historical loss payment pattern instead of the pattern published by the Secretary. This election does not apply to any international insurance or reinsurance line of business.

Section 846(f)(4) defines the term “line of business” as a category for the reporting of loss payment patterns on the annual statement for fire and casualty companies approved by the National Association of Insurance Commissioners, except that the multiple peril lines shall be treated as a single line of business. Section 846(f)(5) states that the term “multiple peril lines” means the lines of business relating to farmowners multiple peril, homeowners multiple peril, commercial multiple peril, ocean marine, aircraft (all perils), and boiler and machinery.

#### .02 Discounted Estimated Salvage Recoverable

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 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.

#### .03 Modification of Discounting Rules

Section 13523 of the Act amended § 846 for taxable years beginning after December 31, 2017. Section 13523 amended the annual rate under § 846(c) and the computational rules for loss payment patterns under § 846(d). Section 13523 also repealed the § 846(e) election to use the taxpayer's own historical loss payment pattern instead of the pattern published by the Secretary. The transition rule set forth in section 13523 provides that, for the first taxable year beginning after December 31, 2017, the unpaid losses and the expenses unpaid (as defined in § 832(b)(5)(B) and (6)) at the end of the preceding taxable year, and the unpaid losses (as defined in §§ 805(a)(1) and 807(c)(2)) at the end of the preceding taxable year, shall be determined as if the amendments made by section 13523 had applied to such unpaid losses and expenses unpaid in the preceding taxable year and by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2018, and any adjustment shall be taken into account ratably in such first taxable year and the 7 succeeding taxable years. For subsequent taxable years, such amendments shall be

applied with respect to unpaid losses and expenses unpaid for accident years ending with or before calendar year 2018 by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2018.

#### .04 Discount Factors for 2017

Pursuant to § 846(d), the Secretary has determined a loss payment pattern for each property and casualty line of business for the 2017 determination year for taxable years beginning on or before December 31, 2017. The loss payment patterns for the 2017 determination year are based on the aggregate loss payment information reported on the 2015 annual statements of property and casualty insurance companies and compiled by A.M. Best and Co. The lines of business for the 2017 determination year are the same as the lines of business for the 2012 determination year. See Rev. Proc. 2012-44, 2012-49 I.R.B. 645. Because section 13523 of the Act amended § 846(d), this revenue procedure provides only the 2017 discount factors for each property and casualty line of business for the 2017 accident year.

#### .05 Discount Factors for 2018 and Subsequent Years

In accordance with the transition rule provided by section 13523 of the Act, for purposes of taxable years beginning after December 31, 2017, the Department of Treasury and the Internal Revenue Service intend to publish for each property and casualty line of business a revised loss payment pattern and discount factors for the 2017 determination year.

### SECTION 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount unpaid losses under § 846 for a line of business using the discount factors published by the Secretary, and applies to any taxpayer that is required to discount estimated salvage recoverable under § 832. This revenue procedure applies to taxable years beginning on or before December 31, 2017, with respect to losses incurred in the 2017 accident year.

### SECTION 4. TABLE OF DISCOUNT FACTORS

The following table presents separately for each line of business the unpaid loss discount factor under § 846 for the 2017 accident year and the salvage recoverable discount factor under § 832 for the 2017 accident year for use in taxable years beginning on or before December 31, 2017. All the discount factors presented in this table were determined by using the applicable interest rate under § 846(c) for 2017, which is 1.46 percent.<sup>1</sup> All the unpaid loss discount factors presented in this table were determined by assuming all loss payments occur in the middle of the calendar year. All the salvage recoverable discount factors presented in this table were determined by assuming all estimated salvage is recovered in the middle of the calendar year. The salvage recoverable discount factors presented in this table must be used by taxpayers

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<sup>1</sup> See Table 6 in Rev. Rul. 2016-27, 2016-49 I.R.B. 781. For taxable years beginning on or before December 31, 2017, the annual rate under § 846(c)(2) for 2017 was the average of the applicable Federal mid-term rates (as defined in § 1274(d) but based on annual compounding) effective as of the beginning of each of the calendar months in the 60-calendar-month period ending before the beginning of the 2017 calendar year. Section 13523 of the Act amended § 846(c)(2) for taxable years beginning after December 31, 2017. The annual rate under § 846(c)(2), as amended, will be a rate determined on the basis of the corporate bond yield curve (as defined in § 430(h)(2)(D)(i), determined by substituting '60-month period' for '24-month period' therein).

irrespective of whether they elected to discount unpaid losses using their own experience under § 846(e).

<b>Discount Factors for Unpaid Losses and Salvage Recoverable            Accident Year 2017            For use in taxable years beginning on or before December 31, 2017</b>		
<b>Line of Business</b>	<b>Unpaid Losses Discount Factor (%)</b>	<b>Salvage Recoverable Discount Factor (%)</b>
Accident and Health (Other Than Disability Income or Credit Disability Insurance)	99.2779	99.2779
Auto Physical Damage	99.1958	99.1075
Commercial Auto/Truck Liability/Medical	96.9625	97.7515
Composite	96.1465	96.8248
Fidelity/Surety	97.9805	97.8563
Financial Guaranty/Mortgage Guaranty	97.8609	97.2545
International (Composite)	96.1465	96.8248
Medical Professional Liability -- Claims-Made	95.6819	96.4032
Medical Professional Liability – Occurrence	93.1551	95.7628
Miscellaneous Casualty	98.6848	98.8340
Multiple Peril Lines (Homeowners/Farmowners, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))	97.5977	97.6281
Other (Including Credit)	98.5437	97.9256

Other Liability -- Claims-Made	95.2379	95.7937
Other Liability – Occurrence	94.2656	94.5979
Private Passenger Auto Liability/Medical	97.7896	98.1755
Products Liability -- Claims-Made	93.1515	94.8192
Products Liability – Occurrence	93.2038	94.7412
Reinsurance -- Nonproportional Assumed Property	97.2568	95.0813
Reinsurance -- Nonproportional Assumed Liability	93.3252	92.8718
Reinsurance -- Nonproportional Assumed Financial Lines	94.2908	92.6863
Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Burglary and Theft)	98.7523	97.7029
Warranty	99.0973	99.2527
Workers' Compensation	93.6645	93.5726

## SECTION 5. EFFECT ON OTHER DOCUMENTS

Table 6 of Rev. Rul. 2017-24, 2017-49 I.R.B. 556, is obsolete.<sup>2</sup>

## SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Kathryn M. Sneade of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information

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<sup>2</sup> Table 6 of Rev. Rul. 2017-24 provides the applicable interest rate for 2018 for purposes of §§ 846 and 807; this rate was based on the applicable Federal mid-term rates. However, sections 13523 and 13517 of the Act changed the rates to be used for purposes of §§ 846 and 807 for taxable years beginning after December 31, 2017; the rates are no longer based on the applicable Federal mid-term rates.

regarding this revenue procedure contact Ms. Sneade at (202) 317-6995 (not a toll free call).