

during any subsequent calendar year unless the election is revoked with the Secretary's consent. Accordingly, on each of its federal income tax returns for the Year C and years thereafter, Taxpayer has continued to recompute the AFIR on the federal income tax return for the fifth taxable year subsequent to the year in which the rate was first used.

Taxpayer requests permission to revoke its election under § 807(d)(4)(A)(ii) so that contracts with respect to which there has not yet been a recomputation of the AFIR will not be required to undergo a recomputation of the AFIR (i.e., contracts issued after Year D). Taxpayer's proposed revocation of the election with respect to contracts issued after Year D will not affect the computation of reserves with respect to contracts issued before Year E. Taxpayer represents that it will not make a new election under § 807(d)(4)(A)(ii) for at least ten taxable years following the taxable year in which the revocation takes effect.

LAW AND ANALYSIS

For taxable years after 1987, § 807(d)(2)(B) provides that the interest rate used in the computation of life insurance reserves is the greater of (i) the AFIR or (ii) the prevailing State assumed interest rate (PSAIR). Section 807(d)(4)(A) defines the AFIR as the interest rate prescribed under § 846(c)(2) for the calendar year in which a contract is issued. However, a taxpayer may elect under § 807(d)(4)(A)(ii) to recompute every five years the AFIR to be used in the computation of life insurance reserves.

Section 807(d)(4)(A)(ii) provides:

(I) IN GENERAL.—In computing the amount of the reserve with respect to any contract to which the election under this clause applies for periods during any recomputation period, the applicable Federal interest rate shall be the annual rate determined by the Secretary under section 846(c)(2) for the 1st year of such period. No change in the applicable Federal interest rate shall be made under the preceding sentence unless such language would equal or exceed 1/2 of 1 percentage point.

(II) RECOMPUTATION PERIOD.—For purposes of subclause (I), the term "recomputation period" means, with respect to any contract, the 5 calendar year period beginning with the 5th calendar year beginning after the calendar year in which the contract was issued (and each subsequent 5 calendar year period).

(III) ELECTION.—An election under this clause shall apply to all contracts issued during the calendar year for which the election was made or during any subsequent calendar year unless such election is revoked with the consent of the Secretary.

Section 807(d)(4)(A)(ii)(IV) provides that the 10-year spread that applies under § 807(f) to adjustments resulting from changes in the basis of calculating reserves does not apply to any adjustment required as a result of the use of a recomputed AFIR. Thus, in Taxpayer's situation the granting of the Service's consent, will not result in any amounts that would be subject to adjustment under § 807(f).

CONCLUSION

Consent is hereby granted to revoke Taxpayer's election to recompute the AFIR, effective for contracts issued after Year D.

The ruling contained in this letter is based upon information and a representation submitted by Taxpayer and accompanied by a penalty of perjury statement executed by appropriate parties. While this office has not verified any of the material submitted in support of the ruling request, it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

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