

## **HIGHLIGHTS OF THIS ISSUE**

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

### **INCOME TAX**

#### **Rev. Rul. 2005-75, page 1073.**

**CPI adjustment for below-market loans for 2006.** The amount that section 7872(g) of the Code permits a taxpayer to lend to a qualified continuing care facility without incurring imputed interest is published and adjusted for inflation for years 1987-2006. Rev. Rul. 2004-108 supplemented and superseded.

#### **Rev. Rul. 2005-76, page 1072.**

**Section 1274A - inflation adjusted numbers for 2006.** This ruling provides the dollar amounts, increased by the 2006 inflation adjustment, for section 1274A of the Code. Rev. Rul. 2004-107 supplemented and superseded.

#### **Rev. Rul. 2005-77, page 1071.**

**Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate.** For purposes of sections 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for December 2005.

#### **Notice 2005-83, page 1075.**

This notice provides relief for certain health plans with non-calendar year renewal dates that otherwise qualify as high-deductible health plans (HDHPs), except that the plans provide state-mandated benefits without regard to a deductible or with a deductible below the minimum annual deductible specified in section 223(c)(2) of the Code. Notice 2004-43 amplified.

#### **Notice 2005-86, page 1075.**

This notice provides guidance on the eligibility to contribute to a Health Savings Account (HSA) during the cafeteria plan grace period described in Notice 2005-42, 2005-23 I.R.B. 1204. Rev. Rul. 2004-45 and Notice 2005-42 amplified.

#### **Notice 2005-89, page 1077.**

This notice provides that the Service will not treat a hotel, motel, or other establishment that otherwise satisfies the definition of "lodging facility" under section 856(d)(9) of the Code as other than a "lodging facility" if it is used to provide temporary housing to certain persons affected by Hurricane Katrina or Hurricane Rita, provided certain recordkeeping requirements are satisfied.

#### **Rev. Proc. 2005-72, page 1078.**

**Insurance companies; loss reserves; discounting unpaid losses.** The loss payment patterns and discount factors are set forth for the 2005 accident year. These factors will be used to compute discounted unpaid losses under section 846 of the Code.

#### **Rev. Proc. 2005-73, page 1090.**

**Insurance companies; discounted estimated salvage recoverable.** The salvage discount factors are set forth for the 2005 accident year. These factors will be used to compute discounted estimated salvage recoverable under section 832 of the Code.

Finding Lists begin on page ii.



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applying the tax law with integrity and fairness to all.

## Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly and may be obtained from the Superintendent of Documents on a subscription basis. Bulletin contents are compiled semiannually into Cumulative Bulletins, which are sold on a single-copy basis.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations,

court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

### **Part I.—1986 Code.**

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

### **Part II.—Treaties and Tax Legislation.**

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

### **Part III.—Administrative, Procedural, and Miscellaneous.**

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

### **Part IV.—Items of General Interest.**

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

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# Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

## Section 42.—Low-Income Housing Credit

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 125.—Cafeteria Plans

A notice provides guidance on the eligibility to contribute to a Health Savings Account (HSA) during the cafeteria plan grace period described in Notice 2005-42, 2005-23 I.R.B. 1204. See Notice 2005-86, page 1075.

## Section 223.—Health Savings Accounts

A notice provides guidance on the eligibility to contribute to a Health Savings Account (HSA) during the cafeteria plan grace period described in Notice 2005-42, 2005-23 I.R.B. 1204. See Notice 2005-86, page 1075.

## Section 280G.—Golden Parachute Payments

Federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 382.—Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change

The adjusted applicable federal long-term rate is set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 412.—Minimum Funding Standards

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 467.—Certain Payments for the Use of Property or Services

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 468.—Special Rules for Mining and Solid Waste Reclamation and Closing Costs

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 482.—Allocation of Income and Deductions Among Taxpayers

Federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 483.—Interest on Certain Deferred Payments

*26 CFR 1.483-1: Computation of interest on certain deferred payments.*

As defined by section 1274A, the definitions for both “qualified debt instruments” and “cash method debt instruments” have dollar ceilings on the stated principal amount. The limits to the stated principal amount are adjusted for inflation for sales or exchanges occurring in the 2006 calendar year. See Rev. Rul. 2005-76, page 1072.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 642.—Special Rules for Credits and Deductions

Federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

## Section 832.—Insurance Company Taxable Income

*26 CFR 1.832-4: Gross income.*

The salvage discount factors are set forth for 2005. These factors must be used to compute discounted estimated salvage recoverable for purposes of section 832 of the Code. See Rev. Proc. 2005-73, page 1090.

## Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

*26 CFR 1.846-1: Application of discount factors.*

The loss payment patterns and discount factors are set forth for the 2005 accident year. These factors will be used for computing discounted unpaid losses under section 846 of the Code. See Rev. Proc. 2005-72, page 1078.

*26 CFR 1.846-1: Application of discount factors.*

The salvage discount factors are set forth for 2005. These factors must be used to compute discounted estimated salvage recoverable for purposes of section 832 of the Code. See Rev. Proc. 2005-73, page 1090.

## Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

*26 CFR 1.1274A-1: Special rules for certain transactions where stated principal amount does not exceed \$2,800,000.*

As defined by section 1274A, the definitions for both “qualified debt instruments” and “cash method debt instruments” have dollar ceilings on the stated principal amount. The limits to the stated principal amount are adjusted for inflation for sales or exchanges occurring in the 2006 calendar year. See Rev. Rul. 2005-76, page 1072.

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

**Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate.** For purposes of sections 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for December 2005.

## Rev. Rul. 2005-77

This revenue ruling provides various prescribed rates for federal income tax

purposes for December 2005 (the current month). Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the

low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520. Finally, Table 6 contains the 2006 interest rate for sections 846 and 807.

REV. RUL. 2005-77 TABLE 1				
Applicable Federal Rates (AFR) for December 2005				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-term</i>				
AFR	4.34%	4.29%	4.27%	4.25%
110% AFR	4.78%	4.72%	4.69%	4.67%
120% AFR	5.22%	5.15%	5.12%	5.10%
130% AFR	5.66%	5.58%	5.54%	5.52%
<i>Mid-term</i>				
AFR	4.52%	4.47%	4.45%	4.43%
110% AFR	4.98%	4.92%	4.89%	4.87%
120% AFR	5.43%	5.36%	5.32%	5.30%
130% AFR	5.89%	5.81%	5.77%	5.74%
150% AFR	6.82%	6.71%	6.65%	6.62%
175% AFR	7.97%	7.82%	7.75%	7.70%
<i>Long-term</i>				
AFR	4.79%	4.73%	4.70%	4.68%
110% AFR	5.27%	5.20%	5.17%	5.14%
120% AFR	5.76%	5.68%	5.64%	5.61%
130% AFR	6.24%	6.15%	6.10%	6.07%

REV. RUL. 2005-77 TABLE 2				
Adjusted AFR for December 2005				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	2.98%	2.96%	2.95%	2.94%
Mid-term adjusted AFR	3.51%	3.48%	3.46%	3.46%
Long-term adjusted AFR	4.40%	4.35%	4.33%	4.31%

REV. RUL. 2005-77 TABLE 3  
Rates Under Section 382 for December 2005

Adjusted federal long-term rate for the current month	4.40%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	4.40%

REV. RUL. 2005-77 TABLE 4

Appropriate Percentages Under Section 42(b)(2) for December 2005

Appropriate percentage for the 70% present value low-income housing credit	8.08%
Appropriate percentage for the 30% present value low-income housing credit	3.46%

REV. RUL. 2005-77 TABLE 5

Rate Under Section 7520 for December 2005

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	5.4%
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REV. RUL. 2005-77 TABLE 6

Applicable rate of interest for 2006 for purposes of sections 846 and 807	3.98%
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## Section 1274A.—Special Rules for Certain Transactions Where Stated Principal Amount Does Not Exceed \$2,800,000

(Also §§ 1274, 483; 1.1274A-1, 1.483-1.)

**Section 1274A – inflation adjusted numbers for 2006.** This ruling provides the dollar amounts, increased by the 2006 inflation adjustment, for section 1274A of the Code. Rev. Rul. 2004-107 supplemented and superseded.

### Rev. Rul. 2005-76

This revenue ruling provides the dollar amounts, increased by the 2006 inflation adjustment, for § 1274A of the Internal Revenue Code.

#### BACKGROUND

In general, §§ 483 and 1274 determine the principal amount of a debt instrument given in consideration for the sale or exchange of nonpublicly traded property. In addition, any interest on a debt instrument

subject to § 1274 is taken into account under the original issue discount provisions of the Code. Section 1274A, however, modifies the rules under §§ 483 and 1274 for certain types of debt instruments.

In the case of a “qualified debt instrument,” the discount rate used for purposes of §§ 483 and 1274 may not exceed 9 percent, compounded semiannually. Section 1274A(b) defines a qualified debt instrument as any debt instrument given in consideration for the sale or exchange of property (other than new § 38 property within the meaning of § 48(b), as in effect on the day before the date of enactment of the Revenue Reconciliation Act of 1990) if the stated principal amount of the instrument does not exceed the amount specified in § 1274A(b). For debt instruments arising out of sales or exchanges before January 1, 1990, this amount is \$2,800,000.

In the case of a “cash method debt instrument,” as defined in § 1274A(c), the borrower and lender may elect to use the cash receipts and disbursements method of accounting. In particular, for any cash method debt instrument, § 1274 does not apply, and interest on the instrument is accounted for by both the borrower and the lender under the cash method of account-

ing. A cash method debt instrument is a qualified debt instrument that meets the following additional requirements: (A) In the case of instruments arising out of sales or exchanges before January 1, 1990, the stated principal amount does not exceed \$2,000,000; (B) the lender does not use an accrual method of accounting and is not a dealer with respect to the property sold or exchanged; (C) § 1274 would have applied to the debt instrument but for an election under § 1274A(c); and (D) an election under § 1274A(c) is jointly made with respect to the debt instrument by the borrower and lender. Section 1.1274A-1(c)(1) of the Income Tax Regulations provides rules concerning the time for, and manner of, making this election.

Section 1274A(d)(2) provides that, for any debt instrument arising out of a sale or exchange during any calendar year after 1989, the dollar amounts stated in § 1274A(b) and § 1274A(c)(2)(A) are increased by the inflation adjustment for the calendar year. Any increase due to the inflation adjustment is rounded to the nearest multiple of \$100 (or, if the increase is a multiple of \$50 and not of \$100, the increase is increased to the nearest multiple of \$100). The inflation adjustment

for any calendar year is the percentage (if any) by which the CPI for the preceding calendar year exceeds the CPI for calendar year 1988. Section 1274A(d)(2)(B) defines the CPI for any calendar year as the

average of the Consumer Price Index as of the close of the 12-month period ending on September 30 of that calendar year.

## INFLATION-ADJUSTED AMOUNTS

For debt instruments arising out of sales or exchanges after December 31, 1989, the inflation-adjusted amounts under § 1274A are shown in Table 1.

Rev. Rul. 2005-76 Table 1		
Inflation-Adjusted Amounts Under § 1274A		
<i>Calendar Year of Sale or Exchange</i>	<i>1274A(b) Amount (qualified debt instrument)</i>	<i>1274A(c)(2)(A) Amount (cash method debt instrument)</i>
1990	\$2,933,200	\$2,095,100
1991	\$3,079,600	\$2,199,700
1992	\$3,234,900	\$2,310,600
1993	\$3,332,400	\$2,380,300
1994	\$3,433,500	\$2,452,500
1995	\$3,523,600	\$2,516,900
1996	\$3,622,500	\$2,587,500
1997	\$3,723,800	\$2,659,900
1998	\$3,823,100	\$2,730,800
1999	\$3,885,500	\$2,775,400
2000	\$3,960,100	\$2,828,700
2001	\$4,085,900	\$2,918,500
2002	\$4,217,500	\$3,012,500
2003	\$4,280,800	\$3,057,700
2004	\$4,381,300	\$3,129,500
2005	\$4,483,000	\$3,202,100
2006	\$4,630,300	\$3,307,400

*Note:* These inflation adjustments were computed using the All-Urban, Consumer Price Index, 1982-1984 base, published by the Bureau of Labor Statistics.

## EFFECT ON OTHER DOCUMENTS

Rev. Rul. 2004-107, 2004-2 C.B. 852, is supplemented and superseded.

## DRAFTING INFORMATION

The author of this revenue ruling is David B. Silber of the Office of the Associate Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling, please contact Mr. Silber at (202) 622-3930 (not a toll-free call).

### Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month

of December 2005. See Rev. Rul. 2005-77, page 1071.

### Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

### Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of December 2005. See Rev. Rul. 2005-77, page 1071.

**CPI adjustment for below-market loans for 2006.** The amount that section 7872(g) of the Code permits a taxpayer

to lend to a qualified continuing care facility without incurring imputed interest is published and adjusted for inflation for years 1987-2006. Rev. Rul. 2004-108 supplemented and superseded.

## Rev. Rul. 2005-75

This revenue ruling publishes the amount that § 7872(g) of the Internal Revenue Code permits a taxpayer to lend to a qualifying continuing care facility without incurring imputed interest. The amount is adjusted for inflation for the years after 1986.

Section 7872 generally treats loans bearing a below-market interest rate as if they bore interest at the market rate.

Section 7872(g)(1) provides that, in general, § 7872 does not apply for any calendar year to any below-market loan made by a lender to a qualified continuing care facility pursuant to a continuing

care contract if the lender (or the lender's spouse) attains age 65 before the close of the year.

Section 7872(g)(2) provides that, in the case of loans made after October 11, 1985, and before 1987, § 7872(g)(1) applies only to the extent that the aggregate outstanding amount of any loan to which § 7872(g) applies (determined without regard to § 7872(g)(2)), when added to the aggregate outstanding amount of all other

previous loans between the lender (or the lender's spouse) and any qualified continuing care facility to which § 7872(g)(1) applies, does not exceed \$90,000.

Section 7872(g)(5) provides that, for loans made during any calendar year after 1986 to which § 7872(g)(1) applies, the \$90,000 limit specified in § 7872(g)(2) is increased by an inflation adjustment. The inflation adjustment for any calendar year is the percentage (if any) by which the

Consumer Price Index (CPI) for the preceding calendar year exceeds the CPI for calendar year 1985. Section 7872(g)(5) states that the CPI for any calendar year is the average of the CPI as of the close of the 12-month period ending on September 30 of that calendar year.

Table 1 sets forth the amount specified in § 7872(g)(2) of the Code. The amount is increased by the inflation adjustment for the years 1987–2006.

Rev. Rul. 2005–75 TABLE 1		
Limit under § 7872(g)(2)		
<i>Year</i>	<i>Amount</i>	
Before 1987	\$ 90,000	
1987	\$ 92,200	
1988	\$ 94,800	
1989	\$ 98,800	
1990	\$103,500	
1991	\$108,600	
1992	\$114,100	
1993	\$117,500	
1994	\$121,100	
1995	\$124,300	
1996	\$127,800	
1997	\$131,300	
1998	\$134,800	
1999	\$137,000	
2000	\$139,700	
2001	\$144,100	
2002	\$148,800	
2003	\$151,000	
2004	\$154,500	
2005	\$158,100	
2006	\$163,300	

*Note:* These inflation adjustments were computed using the All-Urban, Consumer Price Index 1982–1984 base, published by the Bureau of Labor Statistics.

**EFFECT ON OTHER DOCUMENTS**

Rev. Rul. 2004–108, 2004–2 C.B. 853, is supplemented and superseded.

**DRAFTING INFORMATION**

The author of this revenue ruling is David B. Silber of the Office of the Associate Chief Counsel (Financial Institutions

and Products). For further information regarding this revenue ruling, please contact Mr. Silber at (202) 622–3930 (not a toll-free call).

# Part III. Administrative, Procedural, and Miscellaneous

## Health Savings Accounts - Guidance on State Mandates

### Notice 2005-83

#### PURPOSE

This notice provides relief for certain health plans with non-calendar year renewal dates that otherwise qualify as high-deductible health plans (HDHPs), except that the plans provide state-mandated benefits without regard to a deductible or with a deductible below the minimum annual deductible specified in § 223(c)(2) of the Internal Revenue Code.

#### BACKGROUND AND APPLICATION

Some states require that health plans provide certain benefits without regard to a deductible or with a deductible below the minimum annual deductible specified in § 223(c)(2) (e.g., first-dollar coverage or coverage with a low deductible). These health plans are not HDHPs under § 223(c)(2) and individuals covered under these health plans are generally not eligible to contribute to Health Savings Accounts (HSAs). Notice 2004-43, 2004-2 C.B. 10, provides transition relief that treats health plans as meeting the requirement of § 223(c)(2) when the sole reason the plans are not HDHPs is because of certain state-mandated benefits. For months before January 1, 2006, otherwise eligible individuals covered under these health plans will be treated as eligible individuals for purposes of § 223(c)(1) and may contribute to an HSA. The transition period provided in Notice 2004-43 covers months before January 1, 2006, for state-mandated requirements in effect on January 1, 2004.

Generally, a health plan may not reduce existing benefits before the plan's renewal date. Thus, even though a state may amend its laws before January 1, 2006, to authorize HDHPs that comply with § 223(c)(2), non-calendar year plans may still fail to qualify as HDHPs after January 1, 2006, because existing benefits cannot be changed until the next renewal date. For example, a state amends its laws to authorize HDHPs, effective November 1, 2005. A health plan with a renewal date

of July 1, 2005, is required to retain the state-mandated low-deductible coverage for the plan year July 1, 2005, through June 30, 2006, because the benefits can only be modified on the renewal date. As a result, although the state has amended its statute, the health plan will fail to be an HDHP for months after January 1, 2006 (i.e., for the months of January through June, 2006).

Therefore, additional transitional relief is appropriate for non-calendar year health plans. Accordingly, the transition relief in Notice 2004-43 is amplified to provide that for any coverage period of twelve months or less beginning before January 1, 2006, a health plan that otherwise qualifies as an HDHP as defined in § 223(c)(2), except that it complied on its most recent renewal date before January 1, 2006, with state-mandated requirements (in effect on January 1, 2004) to provide certain benefits without regard to a deductible or with a deductible below the minimum annual deductible specified in § 223(c)(2), will be treated as an HDHP. In no event will the additional transitional relief provided in this notice extend beyond the earlier of the health plan's next renewal date or December 31, 2006.

#### EFFECT ON OTHER DOCUMENTS

Notice 2004-43, 2004-2 C.B. 10, is amplified.

#### DRAFTING INFORMATION

The principal author of this notice is Elizabeth Purcell of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this notice, contact Ms. Purcell at (202) 622-6080 (not a toll-free call).

## Health Savings Account Eligibility During A Cafeteria Plan Grace Period

### Notice 2005-86

#### PURPOSE

This notice provides guidance on eligibility to contribute to a Health Savings Ac-

count (HSA) during a cafeteria plan grace period as described in Notice 2005-42, 2005-23 I.R.B. 1204. As discussed below, an individual participating in a health flexible spending arrangement (health FSA) who is covered by the grace period is generally not eligible to contribute to an HSA until the first day of the first month following the end of the grace period, even if the participant's health FSA has no unused benefits at the end of the prior cafeteria plan year. This notice, however, provides guidance on how an employer may amend the cafeteria plan document to enable a health FSA participant to become HSA eligible during the grace period.

#### BACKGROUND

##### Cafeteria Plans

Section 125(a) states that, in general, no amount is included in the gross income of a participant in a cafeteria plan solely because, under the plan, the participant may choose among the benefits of the plan. Section 125(d) defines a cafeteria plan as a written plan under which all participants are employees, and the participants may choose among two or more benefits consisting of cash and qualified benefits. "Qualified benefits" mean any benefit which, with the application of § 125(a), is not includible in the gross income of the employee by reason of an express provision of Chapter 1 of the Internal Revenue Code, including employer-provided accident and health coverage under §§ 106 and 105(b). A high deductible health plan (HDHP) as defined in § 223(c)(2)(A) can be employer-provided accident and health coverage. A health FSA, which pays or reimburses certain § 213(d) medical expenses (other than health insurance or long-term care services or insurance), is also employer-provided accident and health coverage. The term "qualified medical expenses" as used in this notice, means expenses which may be paid or reimbursed under a health FSA.

##### Cafeteria Plan Grace Period

Notice 2005-42, 2005-23 I.R.B. 1204, modifies the application of the rule prohibiting deferred compensation under a cafeteria plan (i.e., the "use-it-or-lose-it"



rule). The notice permits a cafeteria plan to be amended, at the employer's option, to provide a grace period immediately following the end of each plan year, during which an individual who incurs expenses for a qualified benefit during the grace period, may be paid or reimbursed for those expenses from the unused benefits or contributions relating to that benefit. A plan providing a grace period is required to provide the grace period to all participants who are covered on the last day of the plan year (including participants whose coverage is extended to the last day of the plan year through COBRA continuation coverage). The grace period remains in effect for the entire period even though the participant may terminate employment on or before the last day of the grace period. But an employer may limit the availability of the grace period to only certain cafeteria plan benefits and not others. For example, a cafeteria plan offering both a health FSA and a dependent care FSA may limit the grace period to the health FSA. The grace period must not extend beyond the fifteenth day of the third calendar month after the end of the immediately preceding plan year to which it relates, but may be adopted for a shorter period.

#### Interaction Between HSAs and Health FSAs

Section 223(a) allows a deduction for contributions to an HSA for an "eligible individual" for any month during the taxable year. An "eligible individual" is defined in § 223(c)(1)(A) and means, in general, with respect to any month, any individual who is covered under an HDHP on the first day of such month and is not, while covered under an HDHP, "covered under any health plan which is not a high-deductible health plan, and which provides coverage for any benefit which is covered under the high-deductible health plan."

In addition to coverage under an HDHP, § 223(c)(1)(B) provides that an eligible individual may have disregarded coverage, including "permitted insurance" and "permitted coverage." Section 223(c)(2)(C) also provides a safe harbor for the absence of a preventive care deductible. See Notice 2004-23, 2004-1 C.B. 725. Therefore, under § 223, an individual who is eligible to contribute to an HSA must be covered by a health plan that is an HDHP,

and may also have permitted insurance, permitted coverage and preventive care, but no other coverage. A health FSA that reimburses all qualified § 213(d) medical expenses without other restrictions is a health plan that constitutes other coverage. Consequently, an individual who is covered by a health FSA that pays or reimburses all qualified medical expenses is not an eligible individual for purposes of making contributions to an HSA. This result is the same even if the individual is covered by a health FSA sponsored by a spouse's employer.

However, as described in Rev. Rul. 2004-45, 2004-1 C.B. 971, an individual who is otherwise eligible for an HSA may be covered under specific types of health FSAs and remain eligible to contribute to an HSA. One arrangement is a limited-purpose health FSA, which pays or reimburses expenses only for preventive care and "permitted coverage" (e.g., dental care and vision care). Another HSA-compatible arrangement is a post-deductible health FSA, which pays or reimburses preventive care and for other qualified medical expenses only if incurred after the minimum annual deductible for the HDHP under § 223(c)(2)(A) is satisfied. This means that qualified medical expenses incurred before the HDHP deductible is satisfied may not be reimbursed by a post-deductible FSA even after the HDHP deductible has been satisfied. To summarize, an otherwise HSA eligible individual will remain eligible if covered under a limited-purpose health FSA or a post-deductible FSA, or a combination of both.

#### OPTIONS AVAILABLE TO AN EMPLOYER

An employer may adopt either of the following two options, which will affect participants' HSA eligibility during the cafeteria plan grace period:

##### (1) General Purpose Health FSA During Grace Period

Employer amends the cafeteria plan document to provide a grace period but takes no other action with respect to the general purpose health FSA. Because a health FSA that pays or reimburses all qualified medical expenses constitutes impermissible "other coverage" for HSA eligibility purposes, an individual who

participated in the health FSA (or a spouse whose medical expenses are eligible for reimbursement under the health FSA) for the immediately preceding cafeteria plan year and who is covered by the grace period, is not eligible to contribute to an HSA until the first day of the first month following the end of the grace period. For example, if the health FSA grace period ends March 15, 2006, an individual who did not elect coverage by a general health FSA or other disqualifying coverage for 2006 is HSA eligible on April 1, 2006, and may contribute 9/12ths of the 2006 HSA contribution limit. The result is the same even if a participant's health FSA has no unused contributions remaining at the end of the immediately preceding cafeteria plan year.

##### (2) Mandatory Conversion from Health FSA to HSA-compatible Health FSA for All Participants

Employer amends the cafeteria plan document to provide for both a grace period and a mandatory conversion of the general purpose health FSA to a limited-purpose or post-deductible FSA (or combined limited-purpose and post-deductible health FSA) during the grace period. The amendments do not permit an individual participant to elect between an HSA-compatible FSA or an FSA that is not HSA-compatible. The amendments apply to the entire grace period and to all participants in the health FSA who are covered by the grace period. The amendments must satisfy all other requirements of Notice 2005-42. Coverage of these participants by the HSA-compatible FSA during the grace period does not disqualify participants who are otherwise eligible individuals from contributing to an HSA during the grace period.

#### TRANSITION RELIEF

For cafeteria plan years ending before June 5, 2006, an individual participating in a general purpose health FSA that provides coverage during a grace period will be eligible to contribute to an HSA during the grace period if the following requirements are met: (1) If not for the coverage under a general purpose health FSA described in clause (2), the individual would be an "eligible individual" as defined in § 223(c)(1)(A) during the grace period (in

general, is covered under an HDHP and is not, while covered under an HDHP, covered under any impermissible other health coverage); and (2) Either (A) the individual's (and the individual's spouse's) general purpose health FSA has no unused contributions or benefits remaining at the end of the immediately preceding cafeteria plan year, or (B) in the case of an individual who is not covered during the grace period under a general purpose health FSA maintained by the employer of the individual's spouse, the individual's employer amends its cafeteria plan document to provide that the grace period does not provide coverage to an individual who elects HDHP coverage.

#### EFFECT ON OTHER DOCUMENTS

Notice 2005-42 and Rev. Rul. 2004-45 are amplified.

#### DRAFTING INFORMATION

The principal author of this notice is Shoshanna Tanner of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this notice, contact Ms. Tanner at (202) 622-6080 (not a toll-free call).

## **Temporary Relief for Certain REITs and Taxable REIT Subsidiaries that Provide Accommodations to Persons Affected by Hurricanes Katrina and Rita**

### **Notice 2005-89**

The Internal Revenue Service will not treat a hotel, motel, or other establishment that otherwise satisfies the definition of a "lodging facility" under § 856(d)(9) of the Internal Revenue Code as other than a "lodging facility" if it is used to provide temporary housing to certain persons affected by Hurricane Katrina or Hurricane Rita, provided the recordkeeping requirements of this notice are satisfied.

#### BACKGROUND

On August 28, 2005, and August 29, 2005, the President issued major disaster declarations for the states of Florida,

Alabama, Louisiana, and Mississippi as a result of Hurricane Katrina. On September 24, 2005, the President declared major disasters for the states of Louisiana and Texas as a result of Hurricane Rita. These declarations were made pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121-5206.

Subsequently, the Federal Emergency Management Agency (FEMA) designated certain counties and parishes as being eligible for individual assistance (or individual and public assistance). For purposes of this notice, the term "covered disaster area" means the counties and parishes designated by FEMA as being eligible for individual assistance (or individual and public assistance) as a result of Hurricane Katrina and/or Hurricane Rita. For a list of counties and parishes designated by FEMA as being eligible for individual assistance (or individual and public assistance) as a result of Hurricane Katrina, see Notice 2005-73, 2005-42 I.R.B. 723. For a list of counties and parishes designated by FEMA as being eligible for individual assistance (or individual and public assistance) as a result of Hurricane Rita, see IR-2005-110 (September 26, 2005).

Certain real estate investment trusts (REITs) that own lodging facilities have expressed concern that extended stays at those facilities by persons affected by these disasters may cause the REITs to fail to satisfy the income tests under §§ 856(c)(2) and (c)(3). Although rents from real property generally are treated as qualifying income for purposes of these tests, amounts received or accrued from a corporation in which the REIT owns stock are subject to special rules. Under one of these rules, if a REIT leases an interest in real property that is a qualified lodging facility to a taxable REIT subsidiary (TRS) of that REIT, then the lease payments may qualify as rents from real property if the property is operated on behalf of the TRS by a person who is an eligible independent contractor. Section 856(d)(9)(D)(ii) provides that a "lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis. Section 856 and the regulations thereunder do not define the term "transient basis".

#### TRANSIENT BASIS REQUIREMENT

For purposes of § 856(d)(9)(D)(ii), the Service will treat a dwelling unit within a lodging facility as being used on a transient basis during any period in which the unit is used to provide shelter to (a) an individual whose principal residence for purposes of § 1033(h)(4) on August 28, 2005, was located in a covered disaster area and who has been displaced because the residence has been destroyed or damaged as a result of Hurricane Katrina or Hurricane Rita (a displaced resident); (b) employees of business entities whose principal place of business is located in a covered disaster area who have been relocated to other areas where the business entities have job openings (a displaced employee); or (c) a worker assisting in relief activities in the covered disaster area, whether or not the worker is affiliated with a recognized government or philanthropic organization (a relief worker).

A TRS that is the lessee of a hotel, motel, or other establishment and that seeks to rely on this notice with respect to the provision of shelter to a displaced resident, displaced employee, or relief worker for any period ending on or after November 29, 2005, must keep records indicating the dates on which shelter was provided and the name and address of the displaced resident, displaced employee, or relief worker. In addition, (a) with respect to a displaced employee, the TRS must keep records indicating the individual's employer, and (b) with respect to any relief worker, the TRS must keep records indicating the name of the individual's employer or sponsoring organization and the nature of the relief activities undertaken during the individual's stay.

This notice will be effective for six (6) months from its effective date.

#### EFFECTIVE DATE

This notice is effective August 28, 2005 (the date of the President's first major disaster declaration resulting from Hurricane Katrina).

#### PAPERWORK REDUCTION ACT

The collections of information in the notice have been reviewed and approved by the Office of Management and Budget (OMB) in accordance with the Paper-

work Reduction Act (44 U.S.C. 3507) under control number 1545-1977.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collections of information in the notice are in the section of this notice entitled "Transient Basis Requirement". The collections of information are required for compliance with § 856(d)(9)(D). The collections of information are required to obtain a benefit. The likely respondents are corporations.

The estimated total annual reporting burden is 500 hours.

The estimated annual burden per respondent varies from 25-75 hours, depending on the circumstances, with an average of 50 hours. The estimated number of respondents is 10.

Books or records relating to a collection of information must be retained as long as their contents may become material to the administration of the internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

#### DRAFTING INFORMATION

The principal author of this notice is Jonathan D. Silver of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this notice, contact Mr. Silver at (202) 622-3930 (not a toll-free call).

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

## Rev. Proc. 2005-72

### SECTION 1. PURPOSE

This revenue procedure prescribes the loss payment patterns and discount factors for the 2005 accident year. These factors will be used for computing discounted unpaid losses under § 846 of the Internal Revenue Code. See Rev. Proc. 2003-17, 2003-1 C.B. 427, for background concerning the loss payment patterns and application of the discount factors.

### SEC. 2. SCOPE

This revenue procedure applies to any taxpayer that is required to discount its unpaid losses under § 846 for a line of business using discount factors published by the Secretary.

### SEC. 3. TABLES OF DISCOUNT FACTORS

.01 The following tables present separately for each line of business the discount factors under § 846 for accident year 2005. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2005, which is 4.44 percent, and by assuming all loss payments occur in the middle of the calendar year.

.02 If the groupings of individual lines of business on the annual statement change, taxpayers must discount the unpaid losses on the affected lines of business in accordance with the discounting

patterns that would have applied to those unpaid losses based on their classification on the 2000 annual statement. See Rev. Proc. 2003-17, 2003-1 C.B. 427, section 2, for additional background on discounting under section 846 and the use of the Secretary's tables.

.03 Section V of Notice 88-100, 1988-2 C.B. 439, sets forth a composite method for computing discounted unpaid losses for accident years that are not separately reported on the annual statement. The tables separately provide discount factors for taxpayers who elect to use the composite method of section V of Notice 88-100. See Rev. Proc. 2002-74, 2002-2 C.B. 980.

.04 Section 2.03(4) of Rev. Proc. 2003-17 requested comments as to whether a methodology should be adopted to smooth the raw payment data and thus produce a more stable pattern of discount factors. This issue will be addressed in the new determination year, which is 2007. Accordingly, taxpayers may still submit comments that should include a reference to **Rev. Proc. 2005-72** on this issue to the following address:

CC:PA:LPD:PR (**Rev. Proc. 2005-72**), room 5203, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Comments may be hand delivered between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD (**Rev. Proc. 2005-72**), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC 20224. Alternatively, e-mail comments to [Notice.Comments@irs.counsel.treas.gov](mailto:Notice.Comments@irs.counsel.treas.gov). All comments will be available for public inspection and copying.

.05 Tables.

**Tables of Factors to be Used to Discount  
Unpaid Losses Incurred in  
Accident Year 2005**

(Interest rate: 4.44 percent)

**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 97.8513 percent to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the 2005 and later taxable years.

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount all unpaid losses in this line of business that are outstanding at the end of the 2005 taxable year.

**Auto Physical Damage**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	89.6468	89.6468	10.3532	10.1113	97.6638
2006	99.6845	10.0377	0.3155	0.3022	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	0.1578	0.1578	0.1544	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

**Commercial Auto/Truck Liability/Medical**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	28.8244	28.8244	71.1756	65.3965	91.8806
2006	54.9871	26.1626	45.0129	41.5630	92.3357
2007	72.8039	17.8168	27.1961	25.2004	92.6616
2008	85.0572	12.2533	14.9428	13.7969	92.3312
2009	91.6276	6.5704	8.3724	7.6948	91.9064
2010	94.9514	3.3239	5.0486	4.6396	91.8992
2011	97.0453	2.0938	2.9547	2.7058	91.5744
2012	98.1574	1.1121	1.8426	1.6894	91.6838
2013	98.7370	0.5796	1.2630	1.1721	92.7985
2014	99.1070	0.3700	0.8930	0.8460	94.7324

### Commercial Auto/Truck Liability/Medical

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.3700	0.5230	0.5054	96.6342
2016 and later years	0.3700	0.1530	0.1497	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 96.8695 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

#### Composite

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	40.9985	40.9985	59.0015	53.2420	90.2384
2006	65.8439	24.8454	34.1561	30.2149	88.4613
2007	77.5023	11.6583	22.4977	19.6421	87.3071
2008	84.6221	7.1198	15.3779	13.2380	86.0849
2009	90.2455	5.6234	9.7545	8.0789	82.8227
2010	92.2780	2.0325	7.7220	6.3605	82.3688
2011	94.3974	2.1195	5.6026	4.4769	79.9089
2012	95.2526	0.8552	4.7474	3.8017	80.0811
2013	96.2792	1.0266	3.7208	2.9214	78.5162
2014	96.4323	0.1531	3.5677	2.8946	81.1355

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.1531	3.4145	2.8667	83.9550
2016	0.1531	3.2614	2.8374	87.0012
2017	0.1531	3.1083	2.8069	90.3057
2018	0.1531	2.9551	2.7751	93.9070
2019 and later years	0.1531	2.8020	2.7418	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 88.8907 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

#### Fidelity/Surety

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	38.3328	38.3328	61.6672	57.8107	93.7463
2006	58.8485	20.5156	41.1515	39.4114	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	20.5758	20.5758	20.1336	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

### Financial Guaranty/Mortgage Guaranty

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	4.0723	4.0723	95.9277	90.2226	94.0527
2006	40.7639	36.6916	59.2361	56.7312	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	29.6180	29.6180	28.9816	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

### International (Composite)

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	40.9985	40.9985	59.0015	53.2420	90.2384
2006	65.8439	24.8454	34.1561	30.2149	88.4613
2007	77.5023	11.6583	22.4977	19.6421	87.3071
2008	84.6221	7.1198	15.3779	13.2380	86.0849
2009	90.2455	5.6234	9.7545	8.0789	82.8227
2010	92.2780	2.0325	7.7220	6.3605	82.3688
2011	94.3974	2.1195	5.6026	4.4769	79.9089
2012	95.2526	0.8552	4.7474	3.8017	80.0811
2013	96.2792	1.0266	3.7208	2.9214	78.5162
2014	96.4323	0.1531	3.5677	2.8946	81.1355

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.1531	3.4145	2.8667	83.9550
2016	0.1531	3.2614	2.8374	87.0012
2017	0.1531	3.1083	2.8069	90.3057
2018	0.1531	2.9551	2.7751	93.9070
2019 and later	0.1531	2.8020	2.7418	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 88.8907 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**Medical Malpractice — Claims-Made**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	7.3447	7.3447	92.6553	82.5239	89.0655
2006	29.0191	21.6744	70.9809	64.0376	90.2180
2007	53.3108	24.2917	46.6892	42.0557	90.0759
2008	69.1517	15.8409	30.8483	27.7343	89.9053
2009	82.0981	12.9464	17.9019	15.7350	87.8955
2010	86.3995	4.3014	13.6005	12.0377	88.5095
2011	89.7111	3.3116	10.2889	9.1879	89.2991
2012	92.4688	2.7577	7.5312	6.7776	89.9934
2013	94.5163	2.0475	5.4837	4.9860	90.9248
2014	95.7635	1.2471	4.2365	3.9329	92.8323

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	1.2471	2.9894	2.8330	94.7672
2016	1.2471	1.7422	1.6842	96.6692
2017 and later years	1.2471	0.4951	0.4845	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 95.5661 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**Medical Malpractice — Occurrence**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	0.8316	0.8316	99.1684	83.1082	83.8051
2006	7.4573	6.6257	92.5427	80.0270	86.4758
2007	23.5575	16.1002	76.4425	67.1265	87.8130
2008	41.0062	17.4487	58.9938	52.2751	88.6111
2009	55.5832	14.5770	44.4168	39.6990	89.3782
2010	68.9413	13.3581	31.0587	27.8102	89.5407
2011	78.2095	9.2682	21.7905	19.5732	89.8245
2012	82.8727	4.6632	17.1273	15.6766	91.5303
2013	86.3178	3.4451	13.6822	12.8519	93.9319
2014	91.0834	4.7656	8.9166	8.5523	95.9147

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015 and later years	4.7656	4.1510	4.0618	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

### Miscellaneous Casualty

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	79.7790	79.7790	20.2210	19.4754	96.3125
2006	94.9417	15.1627	5.0583	4.8444	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	2.5292	2.5292	2.4748	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

### Multiple Peril Lines (Homeowners/Farmowners, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	59.7445	59.7445	40.2555	37.1445	92.2719
2006	81.0347	21.2902	18.9653	17.0360	89.8274
2007	87.3325	6.2978	12.6675	11.3563	89.6494
2008	91.0659	3.7334	8.9341	8.0452	90.0503
2009	95.1781	4.1122	4.8219	4.1999	87.1002
2010	95.7605	0.5824	4.2395	3.7911	89.4249
2011	97.0539	1.2933	2.9461	2.6377	89.5320
2012	97.6441	0.5903	2.3559	2.1516	91.3303
2013	98.7037	1.0596	1.2963	1.1643	89.8184
2014	98.6217	-0.0821	1.3783	1.2999	94.3059

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.5226	0.8558	0.8235	96.2318
2016 and later years	0.5226	0.3332	0.3260	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 96.6358 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.



**Other (Including Credit)**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	69.1729	69.1729	30.8271	29.6244	96.0986
2006	91.2168	22.0439	8.7832	8.4118	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	4.3916	4.3916	4.2973	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

**Other Liability — Claims-Made**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	14.9618	14.9618	85.0382	74.3656	87.4496
2006	36.2113	21.2494	63.7887	55.9513	87.7135
2007	54.2876	18.0763	45.7124	39.9623	87.4211
2008	64.2163	9.9288	35.7837	31.5899	88.2801
2009	73.2732	9.0569	26.7268	23.7367	88.8123
2010	80.5748	7.3016	19.4252	17.3286	89.2072
2011	87.6200	7.0452	12.3800	10.8982	88.0304
2012	89.9155	2.2955	10.0845	9.0361	89.6042
2013	93.3946	3.4791	6.6054	5.8818	89.0459
2014	94.6170	1.2223	5.3830	4.8938	90.9113

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	1.2223	4.1607	3.8619	92.8183
2016	1.2223	2.9383	2.7841	94.7528
2017	1.2223	1.7160	1.6586	96.6546
2018 and later years	1.2223	0.4936	0.4830	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 94.1292 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

### Other Liability — Occurrence

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	19.1133	19.1133	80.8867	68.6311	84.8484
2006	36.4434	17.3301	63.5566	53.9677	84.9128
2007	52.1648	15.7215	47.8352	40.2972	84.2417
2008	63.2383	11.0734	36.7617	30.7698	83.7006
2009	72.0780	8.8397	27.9220	23.1021	82.7380
2010	75.9021	3.8241	24.0979	20.2198	83.9068
2011	82.9305	7.0284	17.0695	13.9348	81.6357
2012	85.1441	2.2136	14.8559	12.2913	82.7368
2013	89.3006	4.1565	10.6994	8.5893	80.2780
2014	89.9898	0.6892	10.0102	8.2663	82.5786

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.6892	9.3210	7.9290	85.0657
2016	0.6892	8.6318	7.5767	87.7764
2017	0.6892	7.9426	7.2087	90.7606
2018	0.6892	7.2533	6.8244	94.0867
2019 and later years	0.6892	6.5641	6.4231	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 88.8152 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

### Private Passenger Auto Liability/Medical

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	43.1926	43.1926	56.8074	53.1786	93.6121
2006	72.2008	29.0082	27.7992	25.8946	93.1486
2007	84.5632	12.3625	15.4368	14.4104	93.3510
2008	91.9316	7.3684	8.0684	7.5200	93.2034
2009	95.8729	3.9413	4.1271	3.8261	92.7060
2010	97.7804	1.9075	2.2196	2.0465	92.2040
2011	98.7957	1.0153	1.2043	1.0999	91.3257
2012	99.2491	0.4535	0.7509	0.6853	91.2646
2013	99.5195	0.2703	0.4805	0.4394	91.4469
2014	99.6353	0.1159	0.3647	0.3405	93.3821

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

**Private Passenger Auto Liability/Medical**

2015	0.1159	0.2488	0.2373	95.3548
2016	0.1159	0.1330	0.1294	97.3165
2017 and later years	0.1159	0.0171	0.0167	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 96.0257 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**Products Liability — Claims-Made**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	6.5804	6.5804	93.4196	79.0050	84.5700
2006	26.7183	20.1379	73.2817	61.9327	84.5131
2007	43.1834	16.4652	56.8166	47.8558	84.2286
2008	43.9209	0.7375	56.0791	49.2269	87.7812
2009	54.3806	10.4597	45.6194	40.7232	89.2673
2010	78.3630	23.9824	21.6370	18.0223	83.2938
2011	82.8643	4.5013	17.1357	14.2223	82.9982
2012	68.2184	-14.6459	31.7816	29.8213	93.8320
2013	79.1582	10.9399	20.8418	19.9653	95.7947
2014	89.6963	10.5381	10.3037	10.0823	97.8513

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.1286 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**Products Liability — Occurrence**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	9.4198	9.4198	90.5802	75.2456	83.0707
2006	20.5845	11.1647	79.4155	67.1766	84.5888
2007	36.7807	16.1962	63.2193	53.6074	84.7959
2008	55.5974	18.8167	44.4026	36.7576	82.7827
2009	66.6238	11.0263	33.3762	27.1212	81.2591
2010	77.2636	10.6399	22.7364	17.4519	76.7576
2011	79.1888	1.9251	20.8112	16.2593	78.1278
2012	83.6816	4.4928	16.3184	12.3898	75.9253
2013	85.5507	1.8691	14.4493	11.0297	76.3341
2014	85.7291	0.1784	14.2709	11.3371	79.4424

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

### Products Liability — Occurrence

2015	0.1784	14.0925	11.6582	82.7263
2016	0.1784	13.9141	11.9935	86.1968
2017	0.1784	13.7357	12.3437	89.8658
2018	0.1784	13.5573	12.7094	93.7461
2019 and later years	0.1784	13.3789	13.0914	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 86.9679 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

### Reinsurance A (Nonproportional Assumed Property)

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	25.0571	25.0571	74.9429	68.9700	92.0300
2006	52.0402	26.9831	47.9598	44.4567	92.6956
2007	82.4709	30.4307	17.5291	15.3316	87.4636
2008	85.6387	3.1678	14.3613	12.7749	88.9539
2009	92.7228	7.0840	7.2772	6.1025	83.8577
2010	91.8604	-0.8624	8.1396	7.2548	89.1294
2011	96.5016	4.6412	3.4984	2.8338	81.0020
2012	96.1872	-0.3143	3.8128	3.2809	86.0493
2013	97.6206	1.4333	2.3794	1.9617	82.4450
2014	97.8419	0.2214	2.1581	1.8226	84.4552

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	0.2214	1.9367	1.6773	86.6060
2016	0.2214	1.7154	1.5256	88.9357
2017	0.2214	1.4940	1.3671	91.5049
2018	0.2214	1.2727	1.2016	94.4149
2019 and later years	0.2214	1.0513	1.0287	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 89.0524 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

### Reinsurance B (Nonproportional Assumed Liability)

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	8.9223	8.9223	91.0777	75.0085	82.3566
2006	27.3618	18.4395	72.6382	59.4945	81.9052
2007	44.5758	17.2140	55.4242	44.5440	80.3692
2008	53.8781	9.3023	46.1219	37.0152	80.2551
2009	60.8896	7.0115	39.1104	31.4932	80.5238
2010	69.7327	8.8430	30.2673	23.8542	78.8118

**Reinsurance B (Nonproportional Assumed Liability)**

2011	76.6292	6.8965	23.3708	17.8654	76.4433
2012	79.4030	2.7738	20.5970	15.8239	76.8263
2013	83.8936	4.4906	16.1064	11.9373	74.1151
2014	80.1707	-3.7229	19.8293	16.2719	82.0601

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	1.1805	18.6487	15.7879	84.6595
2016	1.1805	17.4682	15.2825	87.4873
2017	1.1805	16.2877	14.7546	90.5872
2018	1.1805	15.1072	14.2032	94.0165
2019 and later years	1.1805	13.9266	13.6274	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 87.9189 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**Reinsurance C (Nonproportional Assumed Financial Lines)**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	17.1195	17.1195	82.8805	73.7197	88.9470
2006	46.6590	29.5395	53.3410	46.8047	87.7462
2007	67.7135	21.0545	32.2865	27.3660	84.7599
2008	78.1379	10.4244	21.8621	17.9277	82.0037
2009	89.7346	11.5967	10.2654	6.8723	66.9470
2010	92.1268	2.3921	7.8732	4.7328	60.1128
2011	89.7323	-2.3945	10.2677	7.3900	71.9733
2012	90.0460	0.3137	9.9540	7.3975	74.3171
2013	94.8867	4.8407	5.1133	2.7790	54.3481
2014	86.7041	-8.1827	13.2959	11.2647	84.7228

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	1.4277	11.8683	10.3058	86.8351
2016	1.4277	10.4406	9.3044	89.1173
2017	1.4277	9.0129	8.2584	91.6292
2018	1.4277	7.5852	7.1661	94.4744
2019 and later years	1.4277	6.1575	6.0252	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 89.1998 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

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

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	62.9320	62.9320	37.0680	35.5638	95.9420
2006	88.4950	25.5631	11.5050	11.0185	95.7713

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2007 and later years	5.7525	5.7525	5.6289	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2007 taxable year.

**Workers' Compensation**

Tax Year	Estimated Cumulative Losses Paid (%)	Estimated Losses Paid Each Year (%)	Unpaid Losses at Year End (%)	Discounted Unpaid Losses at Year End (%)	Discount Factors (%)
2005	28.2489	28.2489	71.7511	63.4995	88.4998
2006	57.8739	29.6249	42.1261	36.0435	85.5608
2007	71.2999	13.4260	28.7001	23.9229	83.3549
2008	77.7584	6.4585	22.2416	18.3848	82.6595
2009	81.9301	4.1717	18.0699	14.9378	82.6666
2010	83.7739	1.8437	16.2261	13.7168	84.5350
2011	86.5350	2.7611	13.4650	11.5040	85.4365
2012	88.4367	1.9017	11.5633	10.0714	87.0975
2013	89.5926	1.1559	10.4074	9.3372	89.7172
2014	91.6441	2.0515	8.3559	7.6553	91.6150

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount unpaid losses incurred in this line of business in the 2005 accident year and that are outstanding at the end of the tax year shown.

2015	2.0515	6.3045	5.8987	93.5633
2016	2.0515	4.2530	4.0641	95.5573
2017	2.0515	2.2016	2.1480	97.5677
2018 and later years	2.0515	0.1501	0.1469	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 95.7822 percent to discount unpaid losses incurred in this line of business in 2005 and prior years and that are outstanding at the end of the 2015 taxable year.

**DRAFTING INFORMATION**

The principal author of this revenue procedure is Katherine A. Hosssofsky of

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## Rev. Proc. 2005-73

### SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2005 accident year. These factors must be used to compute discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

### SEC. 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.

### SEC. 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount estimated salvage recoverable under § 832.

### SEC. 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for the 2005 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2005, which is 4.44 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. *See*

Rev. Proc. 2003-18, 2003-1 C.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.

#### Tables of Factors to be Used to Discount Salvage Recoverable With Respect to Losses Incurred in Accident Year 2005

(Interest rate: 4.44 percent)

#### 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 97.8513 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2005 accident year as of the end of the 2005 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount all salvage recoverable in this line of business as of the end of the 2005 taxable year.

#### Auto Physical Damage

Tax Year	Discount Factors (%)
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2005	96.8175
2006	95.7713

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 2005 accident year.

2007 and later years	97.8513
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Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

#### Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
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2005	91.3239
2006	91.0477
2007	90.8320
2008	91.3071
2009	91.8090
2010	91.2746
2011	92.4705
2012	93.5064
2013	93.7878
2014	95.8004

**Commercial Auto/Truck Liability/Medical**

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 2005 accident year.

2015 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Composite**

Tax Year	Discount Factors (%)
2005	91.2231
2006	89.9591
2007	89.4423
2008	88.8551
2009	87.7165
2010	87.7929
2011	87.5509
2012	87.5159
2013	87.6545
2014	89.4906

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 2005 accident year.

2015 91.3750  
2016 93.3052  
2017 95.2703  
2018 97.2162  
2019 and later years 97.8513

**Composite**

Taxpayers that use the composite method of Notice 88–100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Fidelity/Surety**

Tax Year	Discount Factors (%)
2005	93.6793
2006	95.7713

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 2005 accident year.

2007 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Financial Guaranty/Mortgage Guaranty**

Tax Year	Discount Factors (%)
2005	95.0705
2006	95.7713

**Financial Guaranty/Mortgage Guaranty**

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 2005 accident year.

2007 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**International (Composite)**

Tax Year	Discount Factors (%)
2005	91.2231
2006	89.9591
2007	89.4423
2008	88.8551
2009	87.7165
2010	87.7929
2011	87.5509
2012	87.5159
2013	87.6545
2014	89.4906

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 2005 accident year.

2015 91.3750  
2016 93.3052  
2017 95.2703  
2018 97.2162  
2019 and later years 97.8513



**International (Composite)**

Taxpayers that use the composite method of Notice 88–100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice — Claims-Made**

Tax Year	Discount Factors (%)
2005	86.4755
2006	81.7167
2007	86.5261
2008	84.1162
2009	85.1368
2010	79.5241
2011	89.5664
2012	92.5368
2013	96.0623
2014	97.8513

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 2005 accident year.

2015 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice — Occurrence**

Tax Year	Discount Factors (%)
2005	82.3660
2006	83.5715
2007	87.2656
2008	88.7913
2009	76.0729
2010	86.2799
2011	91.5010
2012	94.5994
2013	96.3703
2014	97.8513

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 2005 accident year.

2015 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Miscellaneous Casualty**

Tax Year	Discount Factors (%)
2005	96.3339
2006	95.7713

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 2005 accident year.

**Miscellaneous Casualty**

2007 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 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 (%)
2005	92.1974
2006	90.4717
2007	91.2273
2008	90.9380
2009	90.5278
2010	91.7899
2011	91.8465
2012	92.0455
2013	93.6189
2014	95.6204

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 2005 accident year.

2015 97.6492  
2016 and later years 97.8513

Taxpayers that use the composite method of Notice 88–100 should use 97.6503 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other (Including Credit)**

Tax Year	Discount Factors (%)
2005	96.5291
2006	95.7713

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 2005 accident year.

2007 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability — Claims-Made**

Tax Year	Discount Factors (%)
2005	90.7061
2006	81.3335
2007	67.4471
2008	88.0410
2009	84.4392
2010	83.6931
2011	89.9416
2012	93.4492
2013	90.2612
2014	92.1610

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 2005 accident year.

**Other Liability — Claims-Made**

2015	94.1004
2016	96.0538
2017 and later years	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 95.1292 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability — Occurrence**

Tax Year	Discount Factors (%)
2005	85.5304
2006	86.9478
2007	88.0380
2008	84.7457
2009	88.1991
2010	90.6498
2011	91.0248
2012	93.0642
2013	94.3646
2014	96.2845

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 2005 accident year.

2015 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Private Passenger Auto Liability/Medical**

Tax Year	Discount Factors (%)
2005	94.1806
2006	93.9873
2007	93.7150
2008	92.9128
2009	92.6982
2010	91.6917
2011	91.6408
2012	91.7062
2013	92.8870
2014	94.8239

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 2005 accident year.

2015	96.7269
2016 and later years	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 96.9284 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability — Claims-Made**

Tax Year	Discount Factors (%)
2005	86.9346
2006	86.9867
2007	88.6095
2008	14.1032
2009	80.6321
2010	86.8941
2011	91.3609
2012	95.4486
2013	30.7119
2014	95.8584

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 2005 accident year.

2015 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability — Occurrence**

Tax Year	Discount Factors (%)
2005	81.4063
2006	83.9954
2007	84.6302
2008	87.2364
2009	84.7065
2010	88.1295
2011	91.1267
2012	91.8405
2013	86.5573
2014	88.3625

**Products Liability — Occurrence**

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 2005 accident year.

2015	90.2160
2016	92.1163
2017	94.0579
2018	96.0181
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 93.2359 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance A (Nonproportional Assumed Property)**

Tax Year	Discount Factors (%)
2005	86.3118
2006	83.4802
2007	87.5160
2008	91.1738
2009	91.8031
2010	93.5092
2011	95.2399
2012	96.4668
2013	97.0401
2014	97.8513

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 2005 accident year.

2015 and later years	97.8513
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**Reinsurance A (Nonproportional Assumed Property)**

Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance B (Nonproportional Assumed Liability)**

Tax Year	Discount Factors (%)
2005	85.7554
2006	83.4923
2007	86.6760
2008	84.5425
2009	77.7160
2010	81.2321
2011	80.6015
2012	82.8262
2013	77.8936
2014	85.2736

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 2005 accident year.

2015	87.3145
2016	89.5053
2017	91.9023
2018	94.6103
2019 and later years	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 89.5188 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance C (Nonproportional Assumed Financial Lines)**

Tax Year	Discount Factors (%)
2005	85.5377
2006	86.2730
2007	89.6741
2008	87.1586
2009	90.2843
2010	83.5843
2011	86.7077
2012	93.3620
2013	94.6849
2014	96.5870

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 2005 accident year.

2015 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

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

Tax Year	Discount Factors (%)
2005	94.0942
2006	95.7713

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 2005 accident year.

2007 and later years	97.8513
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Taxpayers that use the composite method of Notice 88–100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Workers' Compensation**

Tax Year	Discount Factors (%)
2005	86.3894
2006	87.6481
2007	88.0853
2008	88.0120
2009	87.3618
2010	88.1750
2011	87.9837
2012	88.1613
2013	88.9764
2014	90.8396

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 2005 accident year.

2015	92.7444
2016	94.6769
2017	96.5791
2018 and later years	97.8513

Taxpayers that use the composite method of Notice 88–100 should use 94.0730 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**DRAFTING INFORMATION**

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

# Definition of Terms

*Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:*

*Amplified* describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with *modified*, below).

*Clarified* is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

*Distinguished* describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

*Modified* is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A

and B, the prior ruling is modified because it corrects a published position. (Compare with *amplified* and *clarified*, above).

*Obsoleted* describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

*Revoked* describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

*Superseded* describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the substance

of a prior ruling, a combination of terms is used. For example, *modified* and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

*Supplemented* is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

*Suspended* is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

## Abbreviations

*The following abbreviations in current use and formerly used will appear in material published in the Bulletin.*

A—Individual.  
Acq.—Acquiescence.  
B—Individual.  
BE—Beneficiary.  
BK—Bank.  
B.T.A.—Board of Tax Appeals.  
C—Individual.  
C.B.—Cumulative Bulletin.  
CFR—Code of Federal Regulations.  
CI—City.  
COOP—Cooperative.  
Ct.D.—Court Decision.  
CY—County.  
D—Decedent.  
DC—Dummy Corporation.  
DE—Donee.  
Del. Order—Delegation Order.  
DISC—Domestic International Sales Corporation.  
DR—Donor.  
E—Estate.  
EE—Employee.  
E.O.—Executive Order.

ER—Employer.  
ERISA—Employee Retirement Income Security Act.  
EX—Executor.  
F—Fiduciary.  
FC—Foreign Country.  
FICA—Federal Insurance Contributions Act.  
FISC—Foreign International Sales Company.  
FPH—Foreign Personal Holding Company.  
F.R.—Federal Register.  
FUTA—Federal Unemployment Tax Act.  
FX—Foreign corporation.  
G.C.M.—Chief Counsel's Memorandum.  
GE—Grantee.  
GP—General Partner.  
GR—Grantor.  
IC—Insurance Company.  
I.R.B.—Internal Revenue Bulletin.  
LE—Lessee.  
LP—Limited Partner.  
LR—Lessor.  
M—Minor.  
Nonacq.—Nonacquiescence.  
O—Organization.  
P—Parent Corporation.  
PHC—Personal Holding Company.  
PO—Possession of the U.S.  
PR—Partner.

PRS—Partnership.  
PTE—Prohibited Transaction Exemption.  
Pub. L.—Public Law.  
REIT—Real Estate Investment Trust.  
Rev. Proc.—Revenue Procedure.  
Rev. Rul.—Revenue Ruling.  
S—Subsidiary.  
S.P.R.—Statement of Procedural Rules.  
Stat.—Statutes at Large.  
T—Target Corporation.  
T.C.—Tax Court.  
T.D.—Treasury Decision.  
TFE—Transferee.  
TFR—Transferor.  
T.I.R.—Technical Information Release.  
TP—Taxpayer.  
TR—Trust.  
TT—Trustee.  
U.S.C.—United States Code.  
X—Corporation.  
Y—Corporation.  
Z—Corporation.

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<sup>1</sup> A cumulative list of current actions on previously published items in Internal Revenue Bulletins 2005–1 through 2005–26 is in Internal Revenue Bulletin 2005–26, dated June 27, 2005.



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**2005-16**

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