

Internal Revenue Service, Treasury

§ 1.846-1

not otherwise taken into account as a reduction of losses paid, outstanding at the end of the taxable year. Salvage in course of liquidation includes all property (other than cash), real or personal, tangible or intangible, except that which may not be included by reason of express statutory provisions (or rules and regulations of an insurance department) of any State or Territory or the District of Columbia in which the company transacts business. Such salvage in course of liquidation shall be taken into account to the extent of the value thereof at the end of the taxable year as determined from a fair and reasonable estimate based upon either the facts in each case or the company's experience with similar cases. Cash received during the taxable year with respect to items of salvage or reinsurance shall be taken into account in computing losses paid during such taxable year.

(d) This section is effective for taxable years beginning before January 1, 1990.

[T.D. 8266, 54 FR 38970, Sept. 22, 1989; T.D. 8293, 55 FR 9425, Mar. 14, 1990]

§ 1.846-0 Outline of provisions.

The following is a list of the headings in §§ 1.846-1 through 1.846-4.

§ 1.846-1 Application of discount factors.

- (a) In general.
 - (1) Rules.
 - (2) Examples.
 - (3) Increase in discounted unpaid losses shown on the annual statement.
 - (4) Increase in unpaid losses which take into account estimated salvage recoverable.
 - (b) Applicable discount factors.
 - (i) In general.
 - (i) Discount factors published by the Service.
 - (ii) Composite discount factors.
 - (iii) Annual statement changes.
 - (2) Title insurance company reserves.
 - (3) Reinsurance business.
 - (i) Proportional reinsurance for accident years after 1987.
 - (ii) Non-proportional reinsurance.
 - (A) Accident years after 1991.
 - (B) Accident years 1988 through 1991.
 - (iii) Reinsurance for accident years before 1988.
 - (iv) 90 percent exception.
 - (4) International business.
 - (5) Composite discount factors.

§ 1.846-2 Election by taxpayer to use its own historical loss payment pattern.

- (a) In general.
- (b) Eligible line of business.
 - (1) In general.
 - (2) Other published guidance.
 - (3) Special rule for 1987 determination year.
- (c) Anti-abuse rule.

§ 1.846-3 Fresh start and reserve strengthening.

- (a) In general.
- (b) Applicable discount factors.
 - (1) Calculation of beginning balance.
 - (2) Example.
 - (c) Rules for determining the amount of reserve strengthening.
 - (1) In general.
 - (2) Accident years after 1985.
 - (i) In general.
 - (ii) Hypothetical unpaid loss reserve.
 - (3) Accident years before 1986.
 - (i) In general.
 - (ii) Exceptions.
 - (iii) Certain transactions deemed to be reinsurance assumed (ceded) in 1986.
 - (d) Section 845.
 - (e) Treatment of reserve strengthening.
 - (f) Examples.

§ 1.846-4 Effective date.

[T.D. 8433, 57 FR 40843, Sept. 8, 1992; 57 FR 48563, Oct. 27, 1992]

§ 1.846-1 Application of discount factors.

(a) *In general*—(1) *Rules*. A separate series of discount factors are computed for, and applied, to undiscounted unpaid losses attributable to each accident year of each line of business shown on the annual statement (as defined by section 846(f)(3)) filed by that taxpayer for the calendar year ending with or within the taxable year of the taxpayer. See § 1.832-4(b) relating to the determination of unpaid losses. Paragraph (b) of this section provides rules relating to applicable discount factors and § 1.846-3(b) contains guidance relating to discount factors applicable to accident years prior to the 1987 accident year. Once a taxpayer applies a series of discount factors to unpaid losses attributable to an accident year of a line of business, that series of discount factors must be applied to discount the unpaid losses for that accident year for that line of business for all future taxable years. The discount factors cannot be changed to reflect a change in the taxpayer's loss payment pattern during