

Financial Services - Insurance Tax Bulletin

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IRS releases loss and salvage discount factors for 2012

In brief

The IRS has issued loss payment patterns and discount factors (Rev. Proc. 2012-44) and salvage discount factors (Rev. Proc. 2012-45) applicable to accident year 2012. Property and casualty insurance companies use these factors to discount unpaid losses, and to compute discounted estimated salvage recoverable.

In detail

Rev. Proc. 2012-44 sets forth for purposes of Section 846 the loss payment patterns and discount factors for each property and casualty line of business for the 2012 accident year. Rev. Proc. 2012-45 sets forth for purposes of Section 832 the salvage discount factors for the 2012 accident year that must be used for each line of business to compute discounted estimated salvage recoverable. The discount factors were determined using the applicable interest rate under Section 846(c), which is 2.89 %. Rev. Proc. 2012-44 and 2012-45 also contain applicable discount factors for entities using the "composite method" of Notice 88-100 for the "prior" accident year.

Actions to consider

Taxpayers should note that 2012 is a "determination year" and should consider reviewing the election under Section 846 (e), which provides for the determination of loss reserve discount factors using the company's historical payment patterns. Note this election does not apply to salvage discount factors.

*For further information, please feel free to contact **Anthony DiGilio** at (703) 918-4812 or contact your local insurance tax professional. Please visit us at: <http://www.pwc.com/us/insurance/tax>*

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