



FINANCIAL SERVICES

- Insurance Tax Bulletin

PRICEWATERHOUSECOOPERS 

IRS Suspends Revenue Ruling 2007-54 September 25, 2007

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The IRS released Revenue Ruling 2007-61 in which it suspends recently released Revenue Ruling 2007-54. Revenue Ruling 2007-54, which outlined rules for computing insurance company reserves under IRC Section 807, caused a bit of an uproar within the Industry.

At issue is the proper calculation of the required interest component of the so called "separate account DRD" deduction. The ruling, when issued, caused a stir among the industry as it had the impact of effectively eliminating the deduction for many companies and was inconsistent with prior private rulings. The issue was so significant that members of the industry requested immediate meetings with the Treasury to express their concerns about Revenue Ruling 2007-54 citing both technical and procedural issues.

Today's ruling suspends the prior ruling and indicates an intention to address the issue in regulations. Until such time, the ruling notes, the issues should be analyzed as if Revenue Ruling 2007-54 had not been issued. The ruling suggests that future regulations may provide guidance on the proper method for determining required interest if neither the prevailing state assumed rate nor the applicable federal rate is used in the determination of reserves.

In the ruling released today the IRS states that both the IRS and the Treasury believe it is important that the company's share and policyholder's share of net investment income be determined in a manner that effectively prevents a double benefit.

PwC Observes: It is unclear what immediate impact this will have on those companies who have had this issue reopened recently as a result of the ruling, especially those who have Joint Committee refunds in limbo as a result.

For additional information please call Anthony DiGilio at (202) 414-1702 or contact your local insurance tax professional. Please visit us at: <http://www.pwc.com/us/insurance/tax>

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