



TaxNewsFlash

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Rev. Proc. 2018-13: Unpaid loss discount factors, salvage discount factors for 2017 accident year (insurance)

The IRS today released an advance version of Rev. Proc. 2018-13, setting forth the unpaid loss discount factors and salvage discount factors for the 2017 accident year.

The discount factors provided by [Rev. Proc. 2018-13](#) [PDF 35 KB] are to be used to compute discounted unpaid losses under section 846 and the discounted estimated salvage recoverable under section 832.

Legislative changes to discounting rules

Rev. Proc. 2018-13 also reflects changes that were made to section 846 by a provision of the new tax law enacted December 22, 2017. These changes are effective for tax years beginning after December 31, 2017.

The changes to the discounting rules reflect amendments that were made to the annual rate under section 846(c) and to the computational rules for loss payment patterns under section 846(d). Also, the new tax law repealed the section 846(e) election that allowed a taxpayer to use its own historical loss payment pattern, instead of the pattern published by the Treasury Secretary.

A transition rule provides that, for the first tax year beginning after December 31, 2017, the unpaid losses and the expenses unpaid at the end of the preceding tax year, and the unpaid losses at the end of the preceding tax year, will be determined as if the amendments made by the new tax law had applied to such unpaid losses and expenses unpaid in the preceding tax year and by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2018. Any adjustment is then to be taken into account ratably in such first tax year and the seven succeeding tax years.

For subsequent tax years, the legislative changes will be applied with respect to unpaid losses and expenses unpaid for accident years ending with or before calendar year 2018 by using the interest rate and loss payment patterns applicable to accident years ending with calendar year 2018.

In accordance with the transition rule, for purposes of tax years beginning after December 31, 2017, the IRS and Treasury Department intend to publish for each property and casualty line of business a revised loss payment pattern and discount factors for the 2017 determination year.

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