

26 CFR 601.201: Rulings and determination letters.

(Also Part I, sections 832, 846; 1.832-4, 1.846-1.)

Rev. Proc. 2003-18

SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for 2002. These factors must be used to compute discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

SECTION 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 reduced by salvage and reinsurance recovered during the taxable year. This amount is adjusted to reflect changes in discounted unpaid losses on nonlife insur-

ance 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.

SECTION 3. SCOPE

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

SECTION 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for 2002. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2002, which is 5.71 percent, and by assuming all estimated salvage is recovered in the middle of the calendar year

.02 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. Rev. Proc. 2002-74, section 3.03, 2002-51 I.R.B. 980, provides that an insurance company that elects to use the composite method of Notice 88-100 must use the same method to compute discounted estimated salvage recoverable. Accordingly, the tables separately provide discount factors for taxpayers who elect to use the composite method of section V of Notice 88-100.

.03 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own experience under § 846(e).

.04 Tables.

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 97.2617 percent to discount estimated salvage recoverable as of the end of 2002 and later taxable years with respect to losses incurred in this line of business in 2002.

Accident and Health (Other Than Disability Income or Credit Disability Insurance)

Taxpayers that use the composite method of Notice 88-100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2002 with respect to losses incurred in this line of business in 2002.

Auto Physical Damage

Tax Year	Discount Factors (%)
2002	95.9613
2003	94.6349

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Taxpayers that use the composite method of Notice 88-100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

Commercial Auto/Truck Liability/Medical

Tax Year	Discount Factors (%)
2002	89.1648
2003	88.8184
2004	88.5411
2005	89.1228
2006	89.7404
2007	89.0554
2008	90.5327
2009	91.8164
2010	92.1496
2011	94.6715

Commercial Auto/Truck Liability/Medical

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88-100 should use 97.2211 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Composite

Tax Year	Discount Factors (%)
2002	89.0851
2003	87.5364
2004	86.9084
2005	86.1903
2006	84.7791
2007	84.8602
2008	84.5391
2009	84.4628
2010	84.5889
2011	86.8329

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	89.1538
2013	91.5493
2014	94.0070
2015	96.4596
2016 and later years	97.2617

Composite

Taxpayers that use the composite method of Notice 88–100 should use 92.5879 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Fidelity/Surety

Tax Year	Discount Factors (%)
2002	92.0133
2003	94.6349

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

Financial Guaranty/Mortgage Guaranty

Tax Year	Discount Factors (%)
2002	93.7635
2003	94.6349

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Financial Guaranty/Mortgage Guaranty

Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

International (Composite)

Tax Year	Discount Factors (%)
2002	89.0851
2003	87.5364
2004	86.9084
2005	86.1903
2006	84.7791
2007	84.8602
2008	84.5391
2009	84.4628
2010	84.5889
2011	86.8329

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	89.1538
2013	91.5493
2014	94.0070
2015	96.4596
2016 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 92.5879 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Medical Malpractice — Claims-Made

Tax Year	Discount Factors (%)
2002	83.3446

Medical Malpractice — Claims-Made

2003	77.4565
2004	83.3469
2005	80.3314
2006	81.5320
2007	74.4259
2008	86.8875
2009	90.5735
2010	95.0023
2011	97.2617

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Medical Malpractice — Occurrence

Tax Year	Discount Factors (%)
2002	78.2595
2003	79.6832
2004	84.2125
2005	86.0904
2006	70.2129
2007	82.8072
2008	89.2934
2009	93.1674
2010	95.3914
2011	97.2617

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

Medical Malpractice — Occurrence

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.1286 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Miscellaneous Casualty

Tax Year	Discount Factors (%)
2002	95.3528
2003	94.6349

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

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

Tax Year	Discount Factors (%)
2002	90.2539
2003	88.1069
2004	89.0426
2005	88.6765
2006	88.1493
2007	89.7100

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

2008	89.7645
2009	89.9881
2010	91.9392
2011	94.4458

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	97.0065
2013 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 97.0065 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Other (Including Credit)

Tax Year	Discount Factors (%)
2002	95.5983
2003	94.6349

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Other (Including Credit)

Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

Other Liability — Claims-Made

Tax Year	Discount Factors (%)
2002	88.5534
2003	77.0799
2004	59.8423
2005	85.1827
2006	80.6863
2007	79.6704
2008	87.4045
2009	91.7825
2010	87.7798
2011	90.1269

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	92.5413
2013	94.9916
2014 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 92.5413 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Other Liability — Occurrence

Tax Year	Discount Factors (%)
2002	82.1003
2003	83.8238
2004	85.1543

Other Liability — Occurrence

2005	81.0240
2006	85.2626
2007	88.2873
2008	88.7248
2009	91.2567
2010	92.8723
2011	95.2829

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Private Passenger Auto Liability/Medical

Tax Year	Discount Factors (%)
2002	92.6794
2003	92.4436
2004	92.1118
2005	91.1168
2006	90.8537
2007	89.5944
2008	89.5168
2009	89.5750
2010	91.0294
2011	93.4478

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

Private Passenger Auto Liability/Medical

2012	95.8417
2013 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 96.2722 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Products Liability — Claims-Made

Tax Year	Discount Factors (%)
2002	83.8918
2003	83.9617
2004	85.9812
2005	80.9402
2006	75.8992
2007	83.6008
2008	89.1426
2009	94.2722
2010	12.7896
2011	94.7448

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Products Liability — Occurrence

Tax Year	Discount Factors (%)
2002	77.1249
2003	80.2580
2004	80.9969
2005	84.1881
2006	81.0130
2007	85.2160
2008	88.9333
2009	89.8343
2010	83.2562
2011	85.4521

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	87.7240
2013	90.0713
2014	92.4880
2015	94.9465
2016 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 89.9396 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Reinsurance A (Nonproportional Assumed Property)

Tax Year	Discount Factors (%)
2002	83.0276
2003	79.4487
2004	84.3983
2005	88.9304
2006	89.6909
2007	91.8095
2008	93.9748
2009	95.5166

Reinsurance A (Nonproportional Assumed Property)

2010	96.2373
2011	97.2617

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Reinsurance B (Nonproportional Assumed Liability)

Tax Year	Discount Factors (%)
2002	82.5422
2003	79.7782
2004	83.6886
2005	81.1133
2006	72.7512
2007	76.9860
2008	76.1494
2009	78.8202
2010	72.6244
2011	81.6711

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012	84.1450
2013	86.8254

Reinsurance B (Nonproportional Assumed Liability)

2014	89.7871
2015	93.1686
2016 and later years	97.2617

Taxpayers that use the composite method of Notice 88–100 should use 90.7865 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

Reinsurance C (Nonproportional Assumed Financial Lines)

Tax Year	Discount Factors (%)
2002	82.1001
2003	82.9712
2004	87.1724
2005	84.0362
2006	87.9032
2007	79.5172
2008	83.3178
2009	91.6271
2010	93.2736
2011	95.6650

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2012 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

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

Tax Year	Discount Factors (%)
2002	92.5352
2003	94.6349

Taxpayers that do not use the composite method of Notice 88–100 should use the following factor to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

2004 and later years	97.2617
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Taxpayers that use the composite method of Notice 88–100 should use 97.2617 percent to discount estimated salvage recoverable as of the end of 2004 with respect to losses incurred in this line of business in 2002.

Workers' Compensation

Tax Year	Discount Factors (%)
2002	83.1651
2003	84.7058
2004	85.2400
2005	85.1429
2006	84.3224
2007	85.3097
2008	85.0472
2009	85.2314
2010	86.2035
2011	88.4933

Taxpayers that do not use the composite method of Notice 88–100 should use the following factors to discount estimated salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in 2002.

Workers' Compensation

2012	90.8522
2013	93.2636
2014	95.6550
2015 and later years	97.2617

Taxpayers that use the composite method of Notice 88-100 should use 93.1315 percent to discount estimated salvage recoverable as of the end of 2012 with respect to losses incurred in this line of business in 2002.

DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of the Associate Chief Counsel (Financial Institutions and Products). For further information regarding this revenue procedure, contact Ms. Hossofsky at (202) 622-3477 (not a toll-free call).

26 CFR 601.204: *Changes in accounting periods and in methods of accounting.* (Also Part 1, §§ 263A, 446, 471, 472, 481, 7121; 1.263A-1, 1.446-1, 1.471-2, 1.471-4, 1.472-2, 1.481-1.)

Rev. Proc. 2003-20

SECTION 1. PURPOSE

This revenue procedure provides a safe harbor method of accounting (the "Core Alternative Valuation" (CAV) method) for remanufacturers and rebuilders of motor vehicle parts ("remanufacturers") and resellers of remanufactured and rebuilt motor vehicle parts ("resellers") that use the lower of cost or market (LCM) inventory valuation method to value their inventory of cores held for remanufacturing or sale. The CAV method is provided by the Commissioner pursuant to his authority under § 446 of the Internal Revenue Code in order to minimize disputes, provide certainty, and simplify inventory computations. This revenue procedure also provides a procedure for qualifying remanufacturers and resellers currently using an LCM method to obtain automatic consent of the Commissioner to change to the CAV method. In addition, this revenue procedure provides a procedure for qualifying remanufacturers

and resellers not currently using an LCM method to obtain automatic consent to change to an LCM method in conjunction with a change to the CAV method.

SECTION 2. BACKGROUND

.01 *In General.*

(1) Remanufacturers acquire inventories of used motor vehicle parts (e.g., wiper motors, engines, transmissions, and alternators for automobiles, trucks, buses, etc.) for use in remanufacturing. These used parts are frequently referred to within the remanufacturing industry as "cores." Remanufacturers rebuild motor vehicle parts from cores through use of new and used component parts and sell the resulting products as remanufactured replacement parts. Resellers acquire cores in conjunction with their resale activity and sell the cores to a remanufacturer or another reseller in the distribution chain.

(2) Remanufacturers and resellers acquire cores from customers ("customer cores") who purchase remanufactured replacement parts. To encourage a customer to return the core, remanufacturers and resellers generally offer the customer a credit (offset against the purchase price). Remanufacturers and resellers also acquire cores from third-party suppliers of cores (businesses that specialize in supplying cores to meet specific needs, referred to within the industry as "core suppliers" or "core brokers") and occasionally acquire cores directly from other sources.

(3) Controversy exists as to the proper market valuation of cores under the LCM method. See *Consolidated Manufacturing, Inc. v. Commissioner*, 249 F.3d 1231 (10th Cir. 2001), *rev'g in part*, 111 T.C. 1 (1998). In order to reduce controversy and minimize disputes, the Service has determined that it is appropriate to provide a safe harbor procedure for the LCM valuation of cores in inventory.

.02 Section 471 of the Internal Revenue Code, which governs the treatment of inventories, provides two tests to which each inventory must conform: (1) it must conform as nearly as may be to the best accounting practice in the trade or business; and (2) it must clearly reflect income. Section 1.471-2(c) of the Income Tax Regulations provides that the bases of valuation most commonly used by business concerns and which meet the requirements of § 471 are (1) cost and (2) cost or market,

whichever is lower. Section 1.471-2(c) also provides that any goods in an inventory that are unsalable at normal prices or unusable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange, should be valued, if such goods consist of raw materials held for use or consumption, upon a reasonable basis taking into consideration the usability and condition of the goods, but in no case shall such value be less than the scrap value.

.03 Section 1.471-3(b) defines the cost of merchandise purchased since the beginning of the taxable year as the invoice price less trade or other discounts, except strictly cash discounts approximating a fair interest rate, which may be deducted, or not, at the option of the taxpayer, provided the taxpayer follows a consistent course. To this net invoice price should be added transportation or other necessary charges incurred in acquiring possession of the goods. In the case of merchandise produced by the taxpayer, § 1.471-3(c) defines cost as (1) the cost of raw materials and supplies entering into or consumed in connection with the product, (2) expenditures for direct labor, and (3) indirect production costs incident to, and necessary for, the production of the particular article, including in such indirect production costs an appropriate portion of management expenses, but not including any cost of selling or return on capital, whether by way of interest or profit. See §§ 1.263A-1 and 1.263A-2 for more specific rules regarding the treatment of production costs.

.04 Section 1.471-4(a) provides that, under ordinary circumstances and for normal goods in inventory, "market" means the aggregate of the current bid prices prevailing at the date of the inventory of the basic elements of cost reflected in inventories of goods purchased and on hand, goods in process of manufacture, and finished manufactured goods on hand. The basic elements of cost include direct materials, direct labor, and indirect costs required to be included in inventories by the taxpayer (e.g., under § 263A and its underlying regulations for taxpayers subject to that section). For taxpayers to which § 263A applies, for example, the basic elements of cost must reflect all direct costs and all indirect costs properly allocable to goods on hand at the inventory date at the current bid price of