

against future increases in premiums; the operation of the premium stabilization reserves is not subject to *IC*'s experience or discretion. The premium stabilization reserves are refundable to the group policyholders in the event the related group insurance contracts are cancelled. Thus, the premium stabilization reserves are not part of *IC*'s surplus.

LAW AND ANALYSIS

Section 831(a) imposes a tax for each taxable year on the taxable income of every insurance company other than a life insurance company. Section 832(a) provides that, for this purpose, the term "taxable income" means the gross income as defined in § 832(b)(1) less the deductions allowed by § 832(c).

Section 832(b)(1) provides that the gross income of an insurance company that is subject to the tax imposed by § 831 includes the combined gross amount earned during the taxable year from investment income and from underwriting income as provided in § 832(b), computed on the basis of the underwriting and investment exhibit of the annual statement approved by the National Association of Insurance Commissioners (NAIC). Under § 832(b)(3), underwriting income consists of the premiums earned on insurance contracts during the taxable year, less losses incurred and expenses incurred.

Section 832(b)(4) provides that the amount of premiums earned on insurance contracts during the taxable year is computed by subtracting from gross premiums written any return premiums and amounts paid for reinsurance. The amount so obtained is increased by 80 percent of the unearned premiums on outstanding business at the end of the preceding taxable year, and reduced by 80 percent of the unearned premiums on outstanding business at the end of the taxable year.

Section 1.832-4(a)(6)(i) of the Income Tax Regulations provides that an insurance company's liability for return premiums includes amounts previously included in an insurance company's gross premiums written, which are refundable to a policyholder or ceding company, provided that the amounts are fixed by the insurance contract and do not depend on the experience of the insurance company or the discretion of its management.

Section 1.832-4(a)(4)(i) of the regulations provides that gross premiums written are amounts payable for insurance coverage, and that gross premiums written on an insurance contract include all amounts payable for the effective period of an insurance contract. Section 1.832-4(a)(4)(ii) enumerates specific items that must be included in gross premiums written, including amounts subtracted from a premium stabilization reserve to pay for insurance coverage.

The amounts that *IC* adds to its premium stabilization reserves with respect to group insurance contracts are return premiums within the meaning of § 1.832-4(a)(6)(i) of the regulations. The amounts were previously included in *IC*'s gross premiums written. They do not depend on the experience of *IC* or the discretion of *IC*'s management. Pursuant to formulas that are fixed in the group insurance contracts, the amounts are refundable to *IC*'s group policyholders, either to pay extraordinary claims, to offset future premium increases, or (in the event the contract is cancelled) to rebate the amounts previously paid as premiums.

Because the amounts that *IC* adds to its premium stabilization reserves are return premiums within the meaning of § 1.832-4(a)(6)(i) of the regulations, those amounts are subtracted from gross premiums written to compute premiums earned on insurance contracts under § 832(b)(4). When *IC* subtracts amounts from its premium stabilization reserves in the future to pay for insurance coverage on behalf of the same group policyholders, the amount subtracted will increase gross premiums written under § 1.832-4(a)(4)(ii)(B).

HOLDING

Additions to a premium stabilization reserve are return premiums for purposes of determining the amount of premiums earned on insurance contracts during the taxable year under § 832(b)(4).

DRAFTING INFORMATION

The principal author of this revenue ruling is Sheryl B. Flum of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue ruling, contact

Sheryl B. Flum at (202) 622-3970 (not a toll-free call).

Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2005. See Rev. Rul. 2005-32, page 1156.

Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate. For purposes of sections 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for June 2005.

Rev. Rul. 2005-32

This revenue ruling provides various prescribed rates for federal income tax purposes for June 2005 (the current month). Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 2005-32 TABLE 1
Applicable Federal Rates (AFR) for June 2005

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	3.46%	3.43%	3.42%	3.41%
110% AFR	3.81%	3.77%	3.75%	3.74%
120% AFR	4.16%	4.12%	4.10%	4.09%
130% AFR	4.51%	4.46%	4.44%	4.42%
<i>Mid-Term</i>				
AFR	4.01%	3.97%	3.95%	3.94%
110% AFR	4.42%	4.37%	4.35%	4.33%
120% AFR	4.82%	4.76%	4.73%	4.71%
130% AFR	5.23%	5.16%	5.13%	5.11%
150% AFR	6.05%	5.96%	5.92%	5.89%
175% AFR	7.07%	6.95%	6.89%	6.85%
<i>Long-Term</i>				
AFR	4.57%	4.52%	4.49%	4.48%
110% AFR	5.03%	4.97%	4.94%	4.92%
120% AFR	5.49%	5.42%	5.38%	5.36%
130% AFR	5.97%	5.88%	5.84%	5.81%

REV. RUL. 2005-32 TABLE 2
Adjusted AFR for June 2005

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	2.75%	2.73%	2.72%	2.71%
Mid-term adjusted AFR	3.17%	3.15%	3.14%	3.13%
Long-term adjusted AFR	4.20%	4.16%	4.14%	4.12%

REV. RUL. 2005-32 TABLE 3
Rates Under Section 382 for June 2005

Adjusted federal long-term rate for the current month	4.20%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	4.37%

REV. RUL. 2005-32 TABLE 4
Appropriate Percentages Under Section 42(b)(2) for June 2005

Appropriate percentage for the 70% present value low-income housing credit	8.00%
Appropriate percentage for the 30% present value low-income housing credit	3.43%

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest

4.8%

Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2005. See Rev. Rul. 2005-32, page 1156.

Section 1446.—Withholding Tax on Foreign Partners' Share of Effectively Connected Income

26 CFR 1.1446-1: Withholding tax on foreign partner's share of effectively connected taxable income.

T.D. 9200

DEPARTMENT OF THE TREASURY Internal Revenue Service 26 CFR Parts 1, 301, and 602

Section 1446 Regulations; Withholding on Effectively Connected Taxable Income Allocable to Foreign Partners

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains final regulations regarding a partnership's obligation to pay withholding tax under section 1446 on effectively connected taxable income allocable under section 704 to a foreign partner. The regulations interpret the rules added to the Internal Revenue Code by section 1246(a) of the Tax Reform Act of 1986 (1986 Act), as amended by section 1012(s)(1)(A) of the Technical and Miscellaneous Revenue Act of 1988 (1988 Act), and section 7811(i)(6) of the Omnibus Budget Reconciliation Act of 1989 (1989 Act). The regulations will affect partnerships engaged in a trade or business

in the United States that have one or more foreign partners. The final regulations also include conforming amendments to sections 871, 1443, 1461, 1462, 1463, 6109, and 6721. This document also contains temporary regulations under section 1446 that may apply to reduce or eliminate a partnership's obligation to pay withholding tax in certain circumstances.

DATES: *Effective Date:* May 18, 2005.

Applicability Dates: The final and temporary regulations included in this document are applicable to partnership taxable years beginning after May 18, 2005. However, a partnership may elect to apply the provisions of the final regulations to partnership taxable years beginning after December 31, 2004. Further, a partnership may elect to apply the temporary regulations to partnership taxable years beginning after December 31, 2004, provided the partnership also elects to apply the final regulations to partnership taxable years beginning after December 31, 2004.

FOR FURTHER INFORMATION CONTACT: Ronald M. Gootzeit at (202) 622-3860 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in the final regulations have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control numbers 1545-1852 and 1545-1934. Responses to these collections of information are required to determine the extent to which a partnership is required to pay a withholding tax with respect to a foreign partner, to provide information concerning the tax paid on such partner's behalf, and to determine the foreign person required to report the effectively connected taxable income earned by such partnership and entitled to claim credit for the withholding tax paid by the partnership.

The estimated annual burden per respondent/recordkeeper for the collections in the final regulation varies from 15 minutes to 1 hour, depending on individual circumstances, with an estimated average of 30 minutes.

The collections of information contained in the temporary regulation have been reviewed, and pending public comment, approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-1934. To comment on the collection of information in the temporary regulation, please refer to the cross-referenced NPRM (REG-108524-00) published elsewhere in this issue of the Bulletin.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number assigned by the Office of Management and Budget.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

Background

On September 3, 2003, the IRS and Treasury Department published in the **Federal Register** a notice of proposed rulemaking (REG-108524-00, 2003-2 C.B. 869 [68 FR 52466]), corrected at 68 FR 62553 (November 5, 2003)) under sections 871, 1443, 1446, 1461, 1462, 1463, 6109, and 6721 of the Internal Revenue Code (Code). The regulations interpret rules added to the Code by the 1986 Act, as amended by the 1988 Act and the 1989 Act. The regulations provide guidance for partnerships required to pay withholding tax under section 1446 of the Code (1446 tax). Written comments were received in response to the notice of proposed rulemaking, and a public hearing was held on