

contract with its purchaser will not be renewed for 1996. D is unable to find a new purchaser for its gas for 1996. In December 1995, D notifies C that it will not be taking production from the reservoir in 1996. Pursuant to the GBA, C then contracts with its current gas purchaser to sell an additional 20 mmcf per month in 1996. Accordingly, C sells 720 mmcf in 1996 (60 mmcf per month x 12 months). Under the facts described in this example, a principal purpose of altering the taking of production is not to avoid tax. Accordingly, the co-producers' election under section 761(a) will not be revoked by reason of altering the taking of production.

**Example 4 Abusive altering of the taking of production for a taxable year.** The facts are the same as in Example 3(i). For 1996, C anticipates that C's regular tax (reduced by the credits allowable under sections 27 and 28) will not exceed C's tentative minimum tax. Accordingly, under section 29(b)(6), C's credit allowed under section 29(a) for sales of its gas will be zero. For 1997, C anticipates that its credit allowed under section 29(a) will not be limited by section 29(b)(6). On the other hand, D anticipates that any credit it may claim under section 29(a) for 1996, even including a credit based on sales of C's share of current production under the JOA, will not be limited by section 29(b)(6). However, for 1997, D anticipates that its credit under section 29(a) will be limited by section 29(b)(6). On January 1, 1996, C and D agree that D will contract with its purchaser to sell the entire 960 mmcf produced from the reservoir in 1996 and that C will contract with its purchaser to sell the entire 960 mmcf produced from the reservoir in 1997. Under these facts, a principal purpose of altering the taking of production is to avoid tax. Accordingly, the co-producers' election under section 761(a) will be revoked for 1996 and for subsequent years.

(7) **Effective date.** Except in the case of a part-year change to the annual method or the cessation of a JOA, both of which are described in paragraph (d)(2)(i)(C) of this section, the provisions of this paragraph (d) apply to all taxable years beginning after December 31, 1994, of any producer that is a member of an unincorporated organization that produces natural gas under a JOA in effect on or after the start of the producer's first taxable year beginning after December 31, 1994. In the case of a part-year change, the provisions of this paragraph (d) apply on and after January 1, 1996. In the case of the cessation of a JOA, the co-producers use their current method of accounting with respect to that JOA until the JOA ceases to be in effect.

\* \* \* \* \*

**PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT**

Par. 3. The authority citation for

part 602 continues to read as follows:  
 Authority: 26 U.S.C. 7805.

**§ 602.101 [Amended]**

Par. 4. In § 602.101, paragraph (c) is amended by removing the existing entry for 1.761-2 and by adding the entry "1.761-2 ...1545-1338" in numerical order to the table.

Margaret Milner Richardson,  
*Commissioner of Internal Revenue.*

Approved December 12, 1994.

Leslie Samuels,  
*Assistant Secretary of the Treasury.*

(Filed by the Office of the Federal Register on December 22, 1994, 8 45 a.m., and published in the issue of the Federal Register for December 23, 1994, 59 F.R. 66181)

Subchapter L—Insurance Companies  
 Part I—Life Insurance Companies  
 Subpart C—Life Insurance Deductions

**Section 807.—Rules for Certain Reserves**

**Insurance companies; interest rate tables.** Prevailing state assumed interest rates are provided for the determination of reserves under section 807 of the Code for contracts issued in 1994 and 1995. Rev. Rul. 92-19 supplemented in part.

**Rev. Rul. 95-4**

For purposes of § 807(d)(4) of the Internal Revenue Code, for taxable years beginning after December 31, 1993, this ruling supplements the schedules of prevailing state assumed interest rates set forth in Rev. Rul. 92-19, 1992-1 C.B. 227. This information is to be used by insurance companies in computing their reserves for (1) life insurance and supplementary total and permanent disability benefits, (2) individual annuities and pure endowments, and (3) group annuities and pure endowments. As § 807(d)(2)(B) requires that the interest rate used to compute these reserves be the greater of (1) the applicable federal interest rate, or (2) the prevailing state assumed interest rate, the table of applicable federal interest rates in Rev. Rul. 92-19 is also supplemented.

Following are supplements to schedules A, B, C, and D to Part III

of Rev. Rul. 92-19, providing prevailing state assumed interest rates for insurance products with different features issued in 1994 and 1995, and a supplement to the table in Part IV of Rev. Rul. 92-19, providing the applicable federal interest rate under § 807(d)(4)(A) for 1995. This ruling does not supplement Parts I and II of Rev. Rul. 92-19.

This is the third supplement to the interest rates provided in Rev. Rul. 92-19. Earlier supplements were published in Rev. Rul. 93-58, 1993-2 C.B. 241 (interest rates for insurance products issued in 1992 and 1993) and Rev. Rul. 94-11, 1994-1 C.B. 196 (1993 and 1994).

**Part III. Prevailing State Assumed Interest Rates—Products Issued in Years After 1982.\***

**Schedule A**

**STATUTORY VALUATION INTEREST RATES BASED ON THE 1980 AMENDMENTS TO THE NAIC STANDARD VALUATION LAW**

**A. Life insurance valuation:**

<i>Guarantee Duration (years)</i>	<i>Calendar Year of Issue 1995<sup>6</sup></i>
10 or fewer	5.50
More than 10 but not more than 20	5.25
More than 20	4.50

Source: Rates calculated from the monthly averages, ending June 30, 1994, of Moody's Corporate Bond Yield Average—Monthly Average Corporates.

<sup>6</sup> As the applicable federal interest rate for 1995 of 6.99 percent shown in Part IV of this ruling exceeds the prevailing state assumed interest rate for 1995, the interest rate to be used for this product for § 807 purposes, pursuant to § 807(d)(2)(B), is the applicable federal interest rate. See also footnote 3 to Schedule A, Part III, Rev. Rul. 92-19 at 1992-1 C.B. 231.

\* The terms used in the schedules in this ruling and in Part III of Rev. Rul. 92-19 are those used in the Standard Valuation Law; the terms are defined in Rev. Rul. 92-19.

**Section 807**

**Part III, Schedule B**

**STATUTORY VALUATION INTEREST RATES BASED ON THE 1980 AMENDMENTS TO THE NAIC STANDARD VALUATION LAW**

B. Single premium immediate annuities and annuity benefits involving life contingencies arising from other annuities with cash settlement options

and from guaranteed interest contracts with cash settlement options:

<i>Calendar Year of Issue</i>	<i>Valuation Interest Rate</i>
1994	6.50*

Source: Rates calculated from the monthly averages, ending June 30, 1994, of Moody's Corporate Bond Yield Average—Monthly Average Corporates. The terms used in this

schedule are those used in the Standard Valuation Law as defined in Rev. Rul. 92-19.

\* The applicable federal interest rates for 1988 and later years must be used in computing reserves under § 807 if they exceed the prevailing state assumed interest rates specified in this schedule. See applicable federal interest rates set forth in Part IV of Rev. Rul. 92-19, as supplemented.

**Part III, Schedule C12—1994**

**STATUTORY VALUATION INTEREST RATES BASED ON NAIC STANDARD VALUATION LAW FOR 1994 CALENDAR YEAR BUSINESS GOVERNED BY THE 1980 AMENDMENTS**

C. Valuation interest rates for other annuities and guaranteed interest contracts that are valued on an issue year basis:

<i>Cash Settlement Options?</i>	<i>Future Interest Guarantee?</i>	<i>Guarantee Duration (years)</i>	<i>Valuation Interest Rate For Plan Type</i>		
			<i>A</i>	<i>B</i>	<i>C</i>
Yes	Yes	5 or fewer	6.50*	5.75*	5.25*
		More than 5, but not more than 10	6.50*	5.75*	5.25*
		More than 10, but not more than 20	6.00*	5.25*	5.00*
		More than 20	5.00*	4.50*	4.50*
Yes	No	5 or fewer	6.75*	6.00*	5.50*
		More than 5, but not more than 10	6.50*	6.00*	5.50*
		More than 10, but not more than 20	6.25*	5.50*	5.25*
		More than 20	5.25*	4.75*	4.75*
No	Yes or No	5 or fewer	6.50*		
		More than 5, but not more than 10	6.50*	NOT APPLICABLE	
		More than 10, but not more than 20	6.00*		
		More than 20	5.00*		

Source: Rates calculated from the monthly averages, ending June 30, 1994, of Moody's Corporate Bond Yield Average—Monthly Average Corporates.

\*As the applicable federal interest rate for 1994 of 7.45 percent exceeds this prevailing state assumed interest rate, the interest rate to be used for this product under § 807 is 7.45 percent.

**Part III, Schedule D12—1994**

**STATUTORY VALUATION INTEREST RATES BASED ON NAIC STANDARD VALUATION LAW FOR 1994 CALENDAR YEAR BUSINESS GOVERNED BY THE 1980 AMENDMENTS**

D. Valuation interest rates for other annuities and guaranteed interest contracts that are contracts with cash settlement options and that are valued on a change in fund basis:

<i>Cash Settlement Options?</i>	<i>Future Interest Guarantee?</i>	<i>Guarantee Duration (years)</i>	<i>Valuation Interest Rate For Plan Type</i>		
			<i>A</i>	<i>B</i>	<i>C</i>
Yes	Yes	5 or fewer	7.25*	6.75*	5.50*
		More than 5, but not more than 10	7.00*	6.75*	5.50*
		More than 10, but not more than 20	6.50*	6.50*	5.25*
		More than 20	5.75*	5.75*	4.75*
Yes	No	5 or fewer	7.50*	7.00*	5.75*

Cash Settlement Options?	Future Interest Guarantee?	Guarantee Duration (years)	Valuation Interest Rate For Plan Type		
			A	B	C
		More than 5, but not more than 10	7.25*	7.00*	5.75*
		More than 10, but not more than 20	6.75*	6.50*	5.50*
		More than 20	6.00*	6.00*	5.00*

Source: Rates calculated from the monthly averages, ending June 30, 1994, of Moody's Corporate Bond Yield Average—Monthly Average Corporates.

\* As the applicable federal interest rate for 1994 of 7.45 percent exceeds this prevailing state assumed interest rate, the interest rate to be used for this product under § 807 is 7.45 percent.

#### Part IV. Applicable Federal Interest Rates.

##### TABLE OF APPLICABLE FEDERAL INTEREST RATES FOR PURPOSES OF § 807

Year	Interest Rate
1995	6.99

Source: Rev. Rul. 94-73, 1994-2 C.B. 197.

#### EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 92-19 is supplemented by the addition to Part III of that ruling of prevailing state assumed interest rates under § 807 for certain insurance products issued in 1994 and 1995 and is further supplemented by an addition to the table in Part IV of Rev. Rul. 92-19 listing applicable federal interest rates. Parts I and II of Rev. Rul. 92-19 are not affected by this ruling.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of January 1995. See Rev. Rul. 95-3, page 160.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of February 1995. See Rev. Rul. 95-13, page 162.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of March 1995. See Rev. Rul. 95-20, page 163.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April 1995. See Rev. Rul. 95-27, page 164.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 1995. See Rev. Rul. 95-39, page 165.

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 1995. See Rev. Rul. 95-42, page 167.

#### Subpart D—Accounting, Allocation, and Foreign Provisions

#### Section 815.—Distributions to Shareholders from Pre-1984 Policyholders Surplus Account

26 CFR 1.815-2 Distributions to shareholders (Also §§ 368, 381; 1.368-1, 1.381(c)(22)-1)

**Assets retained by the target corporation in a reorganization; distributions to shareholders from pre-1984 policyholders surplus account.** When substantially all of the assets of a target stock life insurance company are transferred in a transaction qualifying as a reorganization under section 368(a)(1)(D) of the Code, there is a distribution, within the meaning of section 815, of an amount equal to the fair market value of any retained assets.

#### Rev. Rul. 95-19

##### ISSUE

If substantially all of the assets of a target stock life insurance company are transferred in a transaction qualifying as a reorganization under § 368(a)(1)(D) of the Internal Revenue Code, is there a direct or indirect distribution, within the meaning of § 815(a), of an amount equal to the fair market value of any retained assets?

##### FACTS

*Situation 1.* P owns all of the outstanding stock of S-1 and S-2. P, S-1, and S-2 are incorporated in state X and are taxable as life insurance companies under § 801. S-1, a life insurance company since 1957, has a balance in its existing policyholders surplus account. P, S-1, and S-2 are calendar year taxpayers.

Pursuant to a plan of reorganization, on December 31, 1993, S-2, the acquiring company, assumed all of the outstanding insurance contracts and related liabilities of S-1, the target stock life insurance company, and also received substantially all of the assets of S-1 other than its state charter, its insurance license, and the assets needed to satisfy X's minimum capital requirements in order to remain in existence, in an exchange qualifying as a reorganization under § 368(a)(1)(D). See, e.g., Rev. Proc. 89-50, 1989-2 C.B. 631, which describes conditions under which the Internal Revenue Service will ordinarily rule that the distribution requirement applicable to reorganizations under § 368(a)(1)(D) will be satisfied where the transferor corporation does not dissolve under state law so that the value of its corporate charter can be realized through a sale of the transferor's stock.

The purpose for having S-1 maintain its corporate existence under state law was to isolate S-1's charter and license for resale by P, parent of both S-1 and S-2, to an unrelated purchaser through the sale of S-1's stock. P intended either to sell S-1 to an unrelated purchaser or, if an unrelated purchaser could not be located within one year, to dissolve S-1 under state law, extinguishing its charter and insurance license and transferring to P assets representing S-1's minimum capital. After the receipt by P of either the proceeds from the sale of S-1's stock or the minimum capital of S-1 upon its liquidation, P may contribute those funds to S-2.

S-1 and S-2 filed the statements referred to in § 1.381(b)-1(b)(3) of the Income Tax Regulations. Under that statement, December 31, 1993, the date that substantially all of the assets were transferred to S-2, is the