

# Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

## 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 2004 and 2005. Rev. Rul. 92-19 supplemented in part.

### Rev. Rul. 2005-29

For purposes of § 807(d)(4) of the Internal Revenue Code, for taxable years beginning after December 31, 2003, 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 2004 and 2005, and a supplement to the table in Part IV of Rev. Rul. 92-19, providing the applicable federal interest rates under § 807(d) for 2004 and 2005. This ruling does not supplement Parts I and II of Rev. Rul. 92-19.

This is the thirteenth 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); Rev. Rul. 94-11, 1994-1 C.B. 196 (1993 and 1994); Rev. Rul. 95-4, 1995-1 C.B. 141 (1994 and 1995); Rev. Rul. 96-2, 1996-1 C.B. 141 (1995 and 1996); Rev. Rul. 97-2, 1997-1 C.B. 134 (1996 and 1997); Rev. Rul. 98-2, 1998-1 C.B. 259 (1997 and 1998); Rev. Rul. 99-10, 1999-1 C.B. 671 (1998 and 1999); Rev. Rul. 2000-17, 2000-1 C.B. 842 (1999 and 2000); Rev. Rul. 2001-11, 2001-1 C.B. 780 (2000 and 2001); Rev. Rul. 2002-12, 2002-1 C.B. 624 (2001 and 2002); Rev. Rul. 2003-24, 2003-1 C.B. 557 (2002 and 2003); and Rev. Rul. 2004-14, 2004-1 C.B. 511 (2003 and 2004).

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## 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:

Guarantee Duration (years)	Calendar Year of Issue 2005
10 or fewer	5.00**
More than 10 but not more than 20	4.75**
More than 20	4.50**

Source: Rates calculated from the monthly averages, ending June 30, 2004, of Moody's Composite Yield on Seasoned Corporate Bonds.

\* 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.

\*\* As these rates exceed the applicable federal interest rate for 2005 of 4.44 percent, the interest rate to be used for this product under § 807 are those specified in this table.

**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:

<u>Calendar Year of Issue</u>	<u>Valuation Interest Rate</u>
2004	5.50*

Source: Rates calculated from the monthly averages, ending June 30, 2004, of Moody's Composite Yield on Seasoned Corporate Bonds (formerly known as 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.

\* As this prevailing state assumed interest exceeds the applicable federal interest rate for 2004 of 4.82 percent, the valuation interest rate of 5.50 percent is to be used for this product under § 807.

**Part III, Schedule C22 — 2004**

**STATUTORY VALUATION INTEREST RATES  
BASED ON NAIC STANDARD VALUATION LAW  
FOR 2004 CALENDAR YEAR BUSINESS  
GOVERNED BY THE 1980 AMENDMENT**

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

Cash Settlement Options?	Future Interest Guarantee?	Guarantee Duration (years)	Valuation Interest Rate For Plan Type		
			A	B	C
Yes	Yes	5 or fewer	5.50	5.00	4.75*
		More than 5, but not more than 10	5.50	5.00	4.75*
		More than 10, but not more than 20	5.00	4.75*	4.50*
		More than 20	4.50*	4.25*	4.25*
Yes	No	5 or fewer	5.75	5.00	4.75*
		More than 5, but not more than 10	5.50	5.00	4.75*
		More than 10, but not more than 20	5.25	4.75*	4.75*
		More than 20	4.75*	4.25*	4.25*
No	Yes or No	5 or fewer	5.50		
		More than 5, but not more than 10	5.50	NOT APPLICABLE	
		More than 10, but not more than 20	5.00		
		More than 20	4.50*		

Source: Rates calculated from the monthly averages, ending June 30, 2004, of Moody's Composite Yield on Seasoned Corporate Bonds.

\*As the applicable federal interest rate for 2004 of 4.82 percent exceeds this prevailing state assumed interest rate, the interest rate to be used for this product under § 807 is 4.82 percent.

**Part III, Schedule D22 — 2004**

STATUTORY VALUATION INTEREST RATES  
 BASED ON NAIC STANDARD VALUATION LAW  
 FOR 2004 CALENDAR YEAR BUSINESS  
GOVERNED BY THE 1980 AMENDMENT

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:

Cash Settlement Options?	Future Interest Guarantee?	Guarantee Duration (years)	Valuation Interest Rate For Plan Type		
			A	B	C
Yes	Yes	5 or fewer	6.00	5.75	4.75*
		More than 5, but not more than 10	6.00	5.75	4.75*
		More than 10, but not more than 20	5.50	5.50	4.75*
		More than 20	5.00	5.00	4.25*
Yes	No	5 or fewer	6.25	6.00	5.00
		More than 5, but not more than 10	6.00	6.00	5.00
		More than 10, but not more than 20	5.75	5.50	4.75*
		More than 20	5.00	5.00	4.50*

Source: Rates calculated from the monthly averages, ending June 30, 2004, of Moody's Composite Yield on Seasoned Corporate Bonds.

\*As the applicable federal interest rate for 2004 of 4.82 percent is equal to or exceeds this prevailing state assumed interest rate, the interest rate to be used for this product under § 807 is 4.82 percent.

## Part IV. Applicable Federal Interest Rates

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

<u>Year</u>	<u>Interest Rate</u>
2004	4.82
2005	4.44

Sources: Rev. Rul. 2003–122, 2003–2 C.B. 1179 for the 2004 rate and Rev. Rul. 2004–106, 2004–49 I.R.B. 893.

#### 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 2003 and 2004 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.

#### DRAFTING INFORMATION

The principal author of this revenue ruling is Ann H. Logan of the Office of Associate Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling, contact her at (202) 622–3970 (not a toll-free call).

### Section 852.—Taxation of Regulated Investment Companies and Their Shareholders

In making the dividend designations permitted by sections 852(b)(3)(C) and (b)(5)(A) of the Internal Revenue Code, may a regulated investment company (“RIC”) designate the maximum amount permitted under each provision even if the aggregate of all of the amounts so designated exceeds the total amount of the RIC’s dividend distributions. See Rev. Rul. 2005-31, page 1084.

### Section 854.—Limitations Applicable to Dividends Received From Regulated Investment Company

(Also: § 871, § 852.)

**Designation of dividends; regulated investment company (RIC).** This ruling provides guidance that allows a RIC, in making the dividend designations permitted by sections 852, 854, and 871 of the Code, to designate the maximum amount permitted under each provision even if the total amount so designated exceeds the total amount of the RIC’s dividend distributions. It also allows individual shareholders of the RIC who are U.S. persons to apply designations to the dividends they receive from the RIC that differ from designations applied by shareholders who are nonresident aliens.

### Rev. Rul. 2005–31

#### ISSUES

(1) In making the dividend designations permitted by §§ 852(b)(3)(C) and (b)(5)(A), 854(b)(1) and (2), and 871(k)(1)(C) and (2)(C) of the Internal Revenue Code, may a regulated investment company (“RIC”) designate the maximum amount permitted under each provision even if the aggregate of all of the amounts so designated exceeds the total amount of the RIC’s dividend distributions?

(2) May individual shareholders of the RIC who are United States persons apply designations to the dividends they receive from the RIC that differ from designations

applied by shareholders who are nonresident alien individuals?

#### FACTS

*R*, a domestic corporation, is registered under the Investment Company Act of 1940, 15 U.S.C. 80a–1 *et seq.*, as a management company and has elected to be treated as a RIC under subchapter M, part 1, of the Code. Some of the shareholders of *R* are individuals who are United States persons, and some of the shareholders are nonresident alien individuals. For its first taxable year beginning after December 31, 2004, *R*’s taxable income consists of \$10,000x of dividend income (all of which is qualified dividend income within the meaning of § 1(h)(11)), \$10,000x of interest income (all of which is qualified interest income within the meaning of § 871(k)(1)), \$5,000x of net short-term capital gain, and \$5,000x of net long-term capital gain. *R* has general and administrative expenses of \$10,000x. *R* distributes \$20,000x to its shareholders for the taxable year, of which \$20x is received by shareholder *A*, an individual who is a United States person, and \$20x is received by shareholder *B*, a nonresident alien individual who does not have any effectively connected income as defined in § 864(c).

#### LAW AND ANALYSIS

Section 854, as amended by the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the “JGTRRA”), Pub. L. No. 108–27, 117 Stat. 752, and the Working Families Tax Relief Act of 2004, Pub. L. No. 108–311, 118 Stat. 1166, provides rules for determining the amount distributed by a RIC to its shareholders that