

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, 1274, 1288, and other sections of the Code, tables set forth the rates for August 2003.

Rev. Rul. 2003–94

This revenue ruling provides various prescribed rates for federal income tax purposes for August 2003 (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 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. 2003–94 TABLE 1				
Applicable Federal Rates (AFR) for August 2003				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	1.21%	1.21%	1.21%	1.21%
110% AFR	1.33%	1.33%	1.33%	1.33%
120% AFR	1.46%	1.45%	1.45%	1.45%
130% AFR	1.58%	1.57%	1.57%	1.56%
<i>Mid-Term</i>				
AFR	2.70%	2.68%	2.67%	2.67%
110% AFR	2.97%	2.95%	2.94%	2.93%
120% AFR	3.25%	3.22%	3.21%	3.20%
130% AFR	3.51%	3.48%	3.46%	3.46%
150% AFR	4.06%	4.02%	4.00%	3.99%
175% AFR	4.74%	4.69%	4.66%	4.64%
<i>Long-Term</i>				
AFR	4.36%	4.31%	4.29%	4.27%
110% AFR	4.80%	4.74%	4.71%	4.69%
120% AFR	5.24%	5.17%	5.14%	5.12%
130% AFR	5.68%	5.60%	5.56%	5.54%

REV. RUL. 2003-94 TABLE 2				
Adjusted AFR for August 2003				
	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	1.08%	1.08%	1.08%	1.08%
Mid-term adjusted AFR	2.37%	2.36%	2.35%	2.35%
Long-term adjusted AFR	4.12%	4.08%	4.06%	4.05%

REV. RUL. 2003-94 TABLE 3	
Rates Under Section 382 for August 2003	
Adjusted federal long-term rate for the current month	4.12%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the month and the prior two months.)	4.35%

REV. RUL. 2003-94 TABLE 4	
Appropriate Percentages Under Section 42(b)(2) for August 2003	
Appropriate percentage for the 70% present value low-income housing credit	7.82%
Appropriate percentage for the 30% present value low-income housing credit	3.35%

REV. RUL. 2003-94 TABLE 5	
Rate Under Section 7520 for August 2003	
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	3.2%

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

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of August 2003. See Rev. Rul. 2003-94, page 357.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of August 2003. See Rev. Rul. 2003-94, page 357.

Section 7702.—Life Insurance Contract Defined

(Also Section 72.)

Life insurance contracts; distributions made in connection with a change in benefits. This ruling describes the rules of section 7702(f)(7) of the Code regarding the tax treatment of a cash distribution made in connection with a reduction in the benefits of a life insurance contract.

Rev. Rul. 2003-95

ISSUE

How is a cash distribution upon a change in the benefits of a life insurance contract taxed under § 7702(f)(7) of the Internal Revenue Code?

FACTS

Situation 1. In Year 1, A purchased a life insurance contract with a \$350,000 death benefit. The contract is a life insurance contract under applicable state law and meets the cash value accumulation test prescribed in § 7702(a)(1) and § 7702(b). The contract is not a “modified endowment contract” as defined in § 7702A.

Through the end of Year 4, A paid total premiums of \$45,000 with regard to the contract. At the end of the Year 4, when the cash surrender value of the contract was \$60,000, A surrendered 60% of the contract and received a cash distribution of \$36,000. The death benefit under the contract decreased to \$140,000 as a result of the partial surrender. Based on A's age at the time of the partial surrender,