

of other premiums to distribute X's risk. See Rev. Rul. 2002-89, 2002-2 C.B. 984 (concluding that risks from unrelated parties representing 10% of total risks borne by subsidiary are insufficient to qualify arrangement between parent and subsidiary as insurance).

In Situation 3, Y contracts only with 12 single member LLCs through which X conducts a courier transport business. The LLCs are disregarded as entities separate from X pursuant to § 301.7701-3. Section 301.7701-2(a) provides that if an entity is disregarded, its activities are treated in the same manner as a sole proprietorship, branch or division of the owner. Applying this rule in Situation 3, Y has entered into an "insurance" arrangement only with X. Therefore, for the reasons set forth in Situation 1 above, the arrangement between X and Y does not constitute insurance for federal income tax purposes.

In Situation 4, the 12 LLCs are not disregarded as entities separate from X, but instead are classified as associations for federal income tax purposes. The arrangements between Y and each LLC thus shift a risk of loss from each LLC to Y. The risks of the LLCs are distributed among the various other LLCs that are insured under similar arrangements. Therefore the arrangements between the 12 LLCs and Y constitute insurance for federal income tax purposes. See Rev. Rul. 2002-90, 2002-2 C.B. 985 (similar arrangements between affiliated entities constituted insurance). Because the arrangements with the 12 LLCs represent Y's only business, and those arrangements are insurance contracts for federal income tax purposes, Y is an insurance company within the meaning of §§ 831(c) and 816(a). In addition, the 12 LLCs may be entitled to deduct amounts paid under those arrangements

as insurance premiums under § 162 if the requirements for deduction are otherwise satisfied.

HOLDINGS

In Situations 1, 2 and 3, the arrangements do not constitute insurance for federal income tax purposes.

In Situation 4, the arrangements constitute insurance for federal income tax purposes and the issuer qualifies as an insurance company. The amounts paid to the issuer may be deductible as insurance premiums under § 162 if the requirements for deduction are otherwise satisfied.

DRAFTING INFORMATION

The principal author of this revenue ruling is John E. Glover of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue ruling, contact Mr. Glover 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 July 2005. See Rev. Rul. 2005-38, page 6.

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 July 2005.

Rev. Rul. 2005-38

This revenue ruling provides various prescribed rates for federal income tax purposes for July 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. 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. Finally, Table 6 contains the blended annual rate for 2005 for purposes of section 7872.

REV. RUL. 2005-38 TABLE 1
Applicable Federal Rates (AFR) for July 2005

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	3.45%	3.42%	3.41%	3.40%
110% AFR	3.80%	3.76%	3.74%	3.73%
120% AFR	4.14%	4.10%	4.08%	4.07%
130% AFR	4.50%	4.45%	4.43%	4.41%
<i>Mid-Term</i>				
AFR	3.86%	3.82%	3.80%	3.79%
110% AFR	4.24%	4.20%	4.18%	4.16%
120% AFR	4.63%	4.58%	4.55%	4.54%
130% AFR	5.03%	4.97%	4.94%	4.92%
150% AFR	5.81%	5.73%	5.69%	5.66%
175% AFR	6.80%	6.69%	6.63%	6.60%
<i>Long-Term</i>				
AFR	4.35%	4.30%	4.28%	4.26%
110% AFR	4.79%	4.73%	4.70%	4.68%
120% AFR	5.23%	5.16%	5.13%	5.11%
130% AFR	5.67%	5.59%	5.55%	5.53%

REV. RUL. 2005-38 TABLE 2
Adjusted AFR for July 2005

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	2.82%	2.80%	2.79%	2.78%
Mid-term adjusted AFR	3.06%	3.04%	3.03%	3.02%
Long-term adjusted AFR	4.09%	4.05%	4.03%	4.02%

REV. RUL. 2005-38 TABLE 3
Rates Under Section 382 for July 2005

Adjusted federal long-term rate for the current month	4.09%
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. 2005-38 TABLE 4
Appropriate Percentages Under Section 42(b)(2) for July 2005

Appropriate percentage for the 70% present value low-income housing credit	7.95%
Appropriate percentage for the 30% present value low-income housing credit	3.41%

REV. RUL. 2005-38 TABLE 5

Rate Under Section 7520 for July 2005

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

4.6%

REV. RUL. 2005-38 TABLE 6

Rate Under Section 7520 for July 2005

Blended Annual Rate for 2005

Section 7872(e)(2) blended annual rate for 2005

3.11%

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 July 2005. See Rev. Rul. 2005-38, page 6.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of July 2005. See Rev. Rul. 2005-38, page 6.

Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of July 2005. See Rev. Rul. 2005-38, page 6.