

ment may determine whether the issuer qualifies as an insurance company for federal income tax purposes and whether amounts paid under such arrangement may be deductible.

In the situation above, the risks being indemnified are the covered retirees' and their dependents' risks of incurring medical expenses during retirement due to accident and health contingencies. Although the VEBA entered into Contract A, the covered retirees' health insurance is an economic benefit to the retirees since it relieves them of the expense of purchasing health insurance for themselves and their dependents. Furthermore, at the time that Contract A goes into effect, neither X nor the VEBA have any commitment or obligation to offer health benefits to the covered retirees and their dependents, and both X and the VEBA may cancel any provided coverage at any time. Consequently, the risks that are shifted in the situation above are those of the covered retirees and their dependents and not risks of the VEBA or X. These risks are reinsured by S1 under Contract B. The risks under Contract B are distributed among this large group of covered individuals, and the analyses of Rev. Rul. 2002-89 and Rev. Rul. 2005-40 are inapplicable. Accordingly, the risks under Contract B are insurance risks, and Contract B constitutes insurance for federal income tax purposes.

HOLDING

In the situation above, S1 is regulated as an insurance company under state law. Contract B constitutes insurance. Because Contract B is more than half of the business done by S1 during this year, S1 qualifies as an insurance company under Subchapter L for this taxable year.

This revenue ruling does not address whether the health benefits are provided through a self-insured medical reimbursement plan for purposes of the nondiscrimination rules under § 105(h) (see Treas. Reg. § 1.105-11(b)(1)(iii)).

This ruling also does not address the deductibility of a contribution by X to the VEBA under §§ 419 and 419A; whether S1, or any account held by IC or S1, with respect to Contract A or Contract B is a welfare benefit fund (as defined in § 419(e)); or the application of § 419A(g). Furthermore, because the arrangement described in this

revenue ruling provides welfare benefits through a VEBA, this ruling does not address certain issues that would arise if an employer provided welfare benefits other than through a VEBA, including whether an entity (or any account held by any person) that is part of such an arrangement is a welfare benefit fund or, if not, whether the arrangement is a plan deferring the receipt of compensation for purposes of §§ 404(a)(5) and 404(b).

EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 2002-89 and Rev. Rul. 2005-40 are distinguished.

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 Ms. Flum at (202) 317-6995 (not a toll-free number).

Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2014. See Rev. Rul. 2014-16, page 1097.

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 2014. See Rev. Rul. 2014-16, page 1097.

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.)

Rev. Rul. 2014-16

This revenue ruling provides various prescribed rates for federal income tax

purposes for June 2014 (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)(1) for buildings placed in service during the current month. However, under section 42(b)(2), the applicable percentage for non-federally subsidized new buildings placed in service after July 30, 2008, with respect to housing credit dollar amount allocations made before January 1, 2014, shall not be less than 9%. 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. 2014–16 TABLE 1

Applicable Federal Rates (AFR) for June 2014

| | <i>Annual</i> | <i>Period for Compounding</i> | | |
|----------|---------------|-------------------------------|------------------|----------------|
| | | <i>Semiannual</i> | <i>Quarterly</i> | <i>Monthly</i> |
| | | <i>Short-term</i> | | |
| AFR | .32% | .32% | .32% | .32% |
| 110% AFR | .35% | .35% | .35% | .35% |
| 120% AFR | .38% | .38% | .38% | .38% |
| 130% AFR | .42% | .42% | .42% | .42% |
| | | <i>Mid-term</i> | | |
| AFR | 1.91% | 1.90% | 1.90% | 1.89% |
| 110% AFR | 2.10% | 2.09% | 2.08% | 2.08% |
| 120% AFR | 2.29% | 2.28% | 2.27% | 2.27% |
| 130% AFR | 2.49% | 2.47% | 2.46% | 2.46% |
| 150% AFR | 2.87% | 2.85% | 2.84% | 2.83% |
| 175% AFR | 3.36% | 3.33% | 3.32% | 3.31% |
| | | <i>Long-term</i> | | |
| AFR | 3.14% | 3.12% | 3.11% | 3.10% |
| 110% AFR | 3.46% | 3.43% | 3.42% | 3.41% |
| 120% AFR | 3.77% | 3.74% | 3.72% | 3.71% |
| 130% AFR | 4.10% | 4.06% | 4.04% | 4.03% |

REV. RUL. 2014–16 TABLE 2

Adjusted AFR for June 2014

| | <i>Period for Compounding</i> | | | |
|-------------------------|-------------------------------|-------------------|------------------|----------------|
| | <i>Annual</i> | <i>Semiannual</i> | <i>Quarterly</i> | <i>Monthly</i> |
| Short-term adjusted AFR | .32% | .32% | .32% | .32% |
| Mid-term adjusted AFR | 1.37% | 1.37% | 1.37% | 1.37% |
| Long-term adjusted AFR | 3.14% | 3.12% | 3.11% | 3.10% |

REV. RUL. 2014–16 TABLE 3

Rates Under Section 382 for June 2014

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Adjusted federal long-term rate for the current month | 3.14% |
| 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.) | 3.32% |

REV. RUL. 2014–16 TABLE 4

Appropriate Percentages Under Section 42(b)(1) for April 2014

Note: Under section 42(b)(2), the applicable percentage for non-federally subsidized new buildings placed in service after July 30, 2008, with respect to housing credit dollar amount allocations made before January 1, 2014, shall not be less than 9%.

| | |
|----------------------------------------------------------------------------|-------|
| Appropriate percentage for the 70% present value low-income housing credit | 7.58% |
| Appropriate percentage for the 30% present value low-income housing credit | 3.25% |

REV. RUL. 2014–16 TABLE 5

Rate Under Section 7520 for June 2014

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 2.2%

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 2014. See Rev. Rul. 2014–16, page 1097.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of June 2014. See Rev. Rul. 2014–16, page 1097.

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 June 2014. See Rev. Rul. 2014–16, page 1097.