

MEMO# 30219

September 8, 2016

Letter to IRS and Treasury Regarding Tax Treatment of Liquidity Fees

[30219]

September 8, 2016

TO: ACCOUNTING/TREASURERS MEMBERS No. 24-16
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 32-16
BROKER/DEALER ADVISORY COMMITTEE No. 30-16
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 23-16
OPERATIONS MEMBERS No. 25-16
SEC RULES MEMBERS No. 50-16
SMALL FUNDS MEMBERS No. 39-16
TAX MEMBERS No. 16-16
TRANSFER AGENT ADVISORY COMMITTEE No. 43-16 RE: LETTER TO IRS AND TREASURY
REGARDING TAX TREATMENT OF LIQUIDITY FEES

The Institute submitted the attached letter to the Internal Revenue Service (“IRS”) and the Treasury Department reiterating our previous requests for guidance on two issues related to liquidity fees imposed by money market funds. [\[1\]](#) First, the Institute has requested that the IRS and Treasury Department issue formal guidance setting forth the proper tax treatment of liquidity fees when received by a fund. Second, we have asked the government to issue guidance providing that, if a fund receives liquidity fees and subsequently chooses to distribute those fees to shareholders, the fund will be deemed to have sufficient earnings and profits to support the distribution.

The recently finalized regulations on the method of accounting for gains and losses on shares in money market funds (the NAV Method) did not address these issues. [\[2\]](#) The Institute’s letter notes that they remain of great importance to the industry and urges the government to provide guidance promptly.

Karen Lau Gibian
Associate General Counsel

[Attachment](#)

endnotes

[1] See Institute [Memorandum](#) No. 28478, dated October 23, 2014; Institute [Memorandum](#) No. 27558, dated September 12, 2013.

[2] See Institute [Memorandum](#) No. 30017, dated July 7, 2016.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.