MEMO# 22897

September 22, 2008

Treasury Notice of No Adverse Tax Consequences to Tax-Exempt Money Market Funds Participating in Federal Guaranty Program

[22897]

September 22, 2008

TO: TAX MEMBERS No. 34-08
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 27-08
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 37-08
SEC RULES MEMBERS No. 95-08 RE: TREASURY NOTICE OF NO ADVERSE TAX CONSEQUENCES TO TAX-EXEMPT MONEY MARKET FUNDS PARTICIPATING IN FEDERAL GUARANTY PROGRAM

The Treasury Department today issued that attached notice (2008-81) announcing that tax-exempt money market funds may participate in the Federal Government's Exchange Stabilization Fund guaranty program without violating a tax law restriction against federal guarantees of tax-exempt bonds. This guidance ensures that shareholders in tax-exempt money market funds will continue to receive dividends that are free from federal income tax when paid as exempt-interest dividends (under Code section 852(b)(5)).

The Exchange Stabilization Fund program is designed to provide shareholders in those money market funds that choose to opt into the program with a guarantee of $1 per share. The program is restricted to participating funds' assets as of September 19, 2008 and to their shareholders of record on that date. Importantly, from a tax perspective, any payments made to a participating money market fund will be tied to the fund's NAV and not to the terms or performance of any particular assets held by the fund.

Notice 2008-81 provides that federal tax authorities will not assert that participation in the program violates the restrictions in Code section 149(b) against federal guarantees of tax-exempt bonds. Moreover, the Notice provides, federal tax authorities will not assert that the program impairs either a fund's ability to designate exempt-interest dividends or a fund shareholder's ability to treat these distributions as exempt from federal income tax. The Notice is effective on September 22, 2008.

Keith Lawson
Senior Counsel - Tax Law

Attachment
