

**MEMO# 28478**

October 23, 2014

## **ICI Comment Letter on Money Market Fund Tax Guidance**

[28478]

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TO: ACCOUNTING/TREASURERS MEMBERS No. 13-14  
BANK, TRUST AND RETIREMENT ADVISORY COMMITTEE No. 45-14  
BROKER/DEALER ADVISORY COMMITTEE No. 52-14  
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 29-14  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 25-14  
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SMALL FUNDS MEMBERS No. 24-14  
TAX MEMBERS No. 29-14  
TRANSFER AGENT ADVISORY COMMITTEE No. 68-14  
VARIABLE INSURANCE PRODUCTS ADVISORY COMMITTEE No. 7-14 RE: ICI COMMENT  
LETTER ON MONEY MARKET FUND TAX GUIDANCE

The Institute has submitted the attached comment letter to the Internal Revenue Service (the “IRS”) and the Treasury Department regarding recently released guidance on money market fund tax issues. [\[1\]](#) The letter commends the Treasury Department and the IRS for releasing the tax guidance in connection with the Securities and Exchange Commission’s (“SEC’s”) adoption of its money market fund rule (the “SEC Rule”) and notes that the guidance addresses many of the tax burdens raised by the new floating net asset value (“NAV”) requirement.

The Institute’s letter recommends three changes to the “NAV method” in the proposed regulations. First, shareholders should be permitted to use the NAV method on an account-by-account basis. Second, the NAV method should be available for shareholders in stable NAV money market funds that charge a liquidity fee. Third, the IRS and the Treasury Department should confirm that a regulated investment company (“RIC”) is permitted to use the one-year period from November 1 to October 31 as its “computation period” for purposes of the excise tax.

The Institute also asks the IRS to extend the wash sale exemption in Rev. Proc. 2014-45 to stable NAV money market funds that impose a liquidity fee.

In addition to the guidance already released, the Institute asks the IRS and the Treasury

Department to provide guidance regarding the tax implications to funds and shareholders if a stable NAV fund imposes a liquidity fee. First, the government should clarify that a money market fund may treat the liquidity fee as “paid-in capital,” resulting in no gain or income, and that shareholders should treat the liquidity fee as a reduction in gross proceeds. The Institute also asks the government to provide that a stable NAV fund that pays out liquidity fees will be deemed to have sufficient earnings and profits to treat the distribution as a dividend, to the extent it otherwise would be a return of capital.

Finally, the Institute asks the Treasury Department and the IRS to provide guidance permitting a money market fund that separates existing institutional and retail classes into standalone funds, in order to comply with the SEC Rule, to treat such transaction as a tax-free reorganization under section 368.

In addition to the written comments, the Institute requests the opportunity to speak at the public hearing on the proposed regulations scheduled for November 19, 2014. An outline of the topics to be discussed is attached.

Karen Lau Gibian  
Senior Associate Counsel – Tax Law

[Attachment](#)

**endnotes**

[\[1\]](#) See Institute Memorandum ([28281](#)), dated July 24, 2014.