

**MEMO# 28680**

January 21, 2015

## **Joint Trade Association Letter to IRS Re: Section 305(c)**

[28680]

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TO: TAX COMMITTEE No. 4-15 RE: JOINT TRADE ASSOCIATION LETTER TO IRS RE SECTION 305(C)

The Institute, the Managed Funds Association (“MFA”), and the Securities Industry and Financial Markets Association (“SIFMA”) recently sent the attached letter to the Internal Revenue Service (“IRS”) regarding convertible bond conversion rate adjustments and deemed dividends under section 305(c). The letter follows up on a meeting of the Institute, the MFA, and SIFMA with the IRS on December 1, 2014, by reiterating the industry concerns discussed at the meeting. It highlights the need for prospective guidance, prospective enforcement, and near-term feedback from the government indicating its intentions regarding the issue.

The letter also includes a list of specific items for which guidance is needed to address section 305(c) deemed dividends on convertible bonds. Of particular interest to regulated investment companies (RICs) are:

- How to calculate the amount of deemed income;
- Whether section 305(c) deemed dividends constitute qualified dividend income; and
- Whether a failure to account for deemed dividends is a method of accounting, and if so, that the general principles governing voluntary method changes will apply.

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[Attachment](#)