

MEMO# 24309

May 20, 2010

ICI Submits Comments to the IRS on Stripping Transactions for Qualified Tax Credit Bonds

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TO: TAX MEMBERS No. 14-10

FIXED-INCOME ADVISORY COMMITTEE No. 9-10

MONEY MARKET FUNDS ADVISORY COMMITTEE No. 19-10

MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 17-10 RE: ICI SUBMITS COMMENTS TO THE IRS ON STRIPPING TRANSACTIONS FOR QUALIFIED TAX CREDIT BONDS

The Institute has submitted the attached letter to the Internal Revenue Service (the “IRS”) and the Treasury Department commenting on interim guidance (Notice 2010-28) recently released by the government regarding stripping transactions for qualified tax credit bonds. [\[1\]](#) Specifically, the Institute recommends that the IRS and Treasury Department expand the list of persons with whom a taxpayer may hold a stripped credit coupon, so that a regulated investment company (a “RIC”) clearly is allowed the tax credit when it holds a stripped credit coupon in an account with a custodian. The Institute also recommends that the IRS simplify the information reporting requirements for tax credit bonds and stripped credit coupons with respect to RICs and their shareholders.

Allowance of the Tax Credit to a Holder of a Stripped Credit Coupon

The interim guidance in Notice 2010-28 states that a taxpayer who holds a stripped credit coupon on a credit allowance date is allowed the tax credit only if, among other things, the taxpayer holds the stripped credit coupon in an account with (i) a broker as defined in section 6045(c)(1) of the Internal Revenue Code; or (ii) any other person to the extent provided by the IRS in published guidance. Because it is not clear whether a bank

custodian qualifies as a “broker” for purposes of section 6045, these rules appear effectively to preclude RICs who keep their assets in an account with a bank custodian from holding stripped credit coupons. The Institute thus recommends that the IRS issue guidance permitting RICs to take the tax credit if they hold stripped credit coupons with a custodian.

Information Reporting Requirements Related to Tax Credit Bonds

Notice 2010-28 contemplates a rigorous information reporting system for tax credit bonds and stripped tax credit coupons. Under the interim guidance, RICs would be required to send annually a new form, Form 1097-BTC, to both the IRS and each shareholder who receives a tax credit. RICs also would be required to send this form to each shareholder on a quarterly basis. The Form 1097-BTC would contain detailed information about each tax credit bond and stripped credit coupon held by the RIC, including the amount of the tax credit, the bond issuer’s tax identification number, and the CUSIP number for the qualified tax credit bond or stripped credit coupon. RICs also would be required to include any distributed tax credits that are treated as dividends on the Forms 1099-DIV that are sent to shareholders.

The Institute believes such detailed information reporting to shareholders is unnecessary and overly burdensome. Therefore, the Institute recommends that RICs only be required to report on Forms 1097-BTC sent to their shareholders, both quarterly and annually, the aggregate amount of tax credits distributed to each shareholder. RICs would report separately to the IRS, as required in the Notice, information on each tax credit bond or stripped credit coupon held by the RIC. RICs also would report to the IRS the aggregate amount of tax credits distributed to each shareholder.

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[Attachment](#)

endnotes

[\[1\]](#) See Institute [Memorandum](#) (24202) to Tax Members No. 9-10, Fixed-Income Advisory Committee No. 4-10, Money Market Funds Advisory Committee No. 9-10, and Municipal Securities Advisory Committee No. 7-10, dated March 31, 2010.