

MEMO# 9582

January 8, 1998

IRS NOTIFICATION THAT CERTAIN MUNICIPAL BONDS ARE TAXABLE

[9582] VIA FAX January 8, 1998 TO: TAX COMMITTEE No. 1-98 RE: IRS NOTIFICATION THAT CERTAIN MUNICIPAL BONDS ARE TAXABLE

_____ A municipal bond fund member of the Institute has received from the Internal Revenue Service's Houston District a letter informing it that IRS has determined that the interest income from certain municipal bonds it holds is taxable. The bonds in question are described by IRS as issued by the Utah School District Finance Cooperative and titled Revenue Bonds, Series 1988 (Capital Improvements Financing Pool), Issued July 14, 1988. The letter appears to instruct the fund to send IRS Forms 1099 to its shareholders for 1994, 1995 and 1996 treating income from these bonds as taxable and to send originals of these Forms to the IRS Houston office by January 31, 1998. The fund separately is advised to report interest on these bonds as taxable for 1997 and subsequent years. The letter notes that failure to file required Forms 1099 may result in penalties under sections 6721(a) and 6721(e). **ACTION REQUESTED** If you hold any of the Utah School District Finance Cooperative bonds in question, please call the undersigned at 202-326-5832 at your earliest convenience. We also would like to know, with respect to 1994, 1995, 1996 and 1997: (1) the total amount of interest received on the bonds each year; (2) the number of shareholders who would have received Forms 1099 each year (i.e., because they would have received taxable income of \$10 or more) had the interest been treated as taxable; and (3) the average amount of taxable income attributable to these bonds that would have been received by the shareholders identified in question 2 (who would have received a Form 1099 for each year had the bonds been treated as taxable). Keith D. Lawson Associate Counsel - Tax