

**MEMO# 1273**

July 19, 1989

## **COURT DECISION ON ADEQUATE IDENTIFICATION OF SHARES REDEEMED**

July 19, 1989 TO: TAX MEMBERS NO. 25-89 ACCOUNTING/TREASURERS COMMITTEE NO. 24-89 OPERATIONS MEMBERS NO. 21-89 TRANSFER AGENT SHAREHOLDER ADVISORY COMMITTEE NO. 17-89 RE: COURT DECISION ON ADEQUATE IDENTIFICATION OF SHARES REDEEMED \_\_\_\_\_ The attached Tax Court decision, *Hall v. Commissioner*, considers what constitutes adequate identification for purposes of permitting a regulated investment company (RIC) shareholder to adopt an accounting method other than first-in, first-out in computing gain or loss on the redemption of RIC shares. The taxpayer in *Hall* did not designate which shares were to be redeemed when he called the RIC's transfer agent nor did the taxpayer send any written instructions indicating such a designation. The taxpayer's accountant merely prepared transaction summaries at year-end using the last-in, first-out method of accounting to compute gain or loss. The Court noted that it could "see no valid reason ... to permit a stock trader to wait until the end of a year to allot specific sales to his general inventory of stocks in such a manner as to be most beneficial to him tax wise." Consequently, the Court held, because the taxpayer never told the transfer agent or the RIC which shares were to be redeemed, the taxpayer had not met the requirements for adequate identification set forth in Section 1.1012-1(c) of the Treasury's regulations. We will keep you informed of developments.

Keith D. Lawson Assistant General Counsel Attachment