

MEMO# 8703

March 7, 1997

DIRECT DEPOSITS OF FEDERAL TAX REFUNDS

1 For 1996 federal income tax returns, the direct deposit option appears on page two of the Form 1040 individual income tax return. Lines 60b through 60d of the Form 1040 require the taxpayer to identify the account into which the deposit should be made by providing a "routing number," an "account number" and indicating whether the account is a "checking" or a "saving" account. 2 Fund complexes participating in this program provide shareholders with (1) the clearing bank's "routing number," (2) a new "account number" that identifies the fund complex (and perhaps the individual shareholder as well) and (3) instructions to identify the account as a "checking" account. 3 Separate correspondence between the fund complex and the shareholder is used in this "common account number situation" to identify the fund(s) into which the shareholder's refund is to be invested. March 7, 1997 TO: PRIMARY CONTACTS - MEMBER COMPLEX (MEMBERS - ONE PER COMPLEX) No. 15-97 TAX COMMITTEE No. 9-97 RE: DIRECT DEPOSITS OF FEDERAL TAX REFUNDS

As you may know, the Internal Revenue Service ("IRS") now generally permits any taxpayer to have his or her federal income tax refund directly deposited into the taxpayer's "account at a bank or other financial institution."¹ During the past two years, several fund complexes have developed procedures whereby fund shareholders can participate in this program by having their refunds deposited by IRS in a "clearing account" set up by the fund complex with a bank.² Earlier this week, the Institute became aware that delays may occur at the IRS in the processing of direct deposits to fund shareholders when more than two refunds are deposited into a single account. For example, these delays may occur if a fund complex uses only one "common" account number at a clearing bank for all direct deposits made on behalf of a complex' shareholders.³ In contrast, if a complex uses a system where, for example, the first four to eight digits in the account number identify the complex and the remaining digits identify the shareholder, no delay apparently will occur in the processing of the direct deposit. Action Requested The IRS has asked the Institute for assistance in minimizing delays in processing tax refund direct deposits to fund shareholders. Specifically, the IRS would like to know any account number that might be used by more than one shareholder in a fund complex (such as the "common" account number, discussed above) to make direct deposits. To assist the IRS in resolving this matter, the Institute requests that those firms participating in the IRS direct deposit program contact the undersigned at 202-326-5832. We will keep you informed of developments. Keith D. Lawson Associate Counsel- Tax

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