

**MEMO# 8221**

September 10, 1996

## **IRS REVENUE PROCEDURE ON MULTI-CLASS FUNDS**

\* See Institute Memorandum to Tax Committee No. 23-95 and Accounting/Treasurers Committee No. 22-95, dated June 16, 1995. September 10, 1996 TO: BOARD OF GOVERNORS No. 52-96 RE: IRS REVENUE PROCEDURE ON MULTI-CLASS FUNDS

As you may know, the Internal Revenue Service has, in the last seven years, issued over 200 private letter rulings that refuse to recognize the separate classes in a multi-class fund. As a result, significant restrictions have been imposed on the expense differential permitted with respect to the classes of a multi-class fund. We are pleased to report that the IRS has issued the attached revenue procedure revising its position of the last seven years. Consistent with the recommendations of the Institute,\* the revenue procedure establishes a safe harbor for multi-class funds that make different distributions to different groups of shares as a result of different expense allocations. A fund that satisfies the conditions of the revenue procedure will not be deemed to have paid non-deductible preferential dividends. The revenue procedure does not address the treatment of fund distributions that differ as a result of waivers or reimbursements of fund expenses or as a result of performance-based advisory fees. Comments on the effect of waivers, reimbursements or performance-based advisory fees are solicited in an announcement accompanying the revenue procedure. The Institute will continue to work with the IRS to resolve these remaining issues and will keep you informed of further developments. Catherine L. Heron Vice President & Senior Counsel  
Attachment

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