

MEMO# 15424

December 6, 2002

IRS TECHNICAL ADVICE MEMORANDUM CONCLUDING THAT CAPITAL INFUSIONS TO MONEY MARKET FUNDS ARE DEDUCTIBLE

[15424] December 6, 2002 TO: ACCOUNTING/TREASURERS MEMBERS No. 50-02 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 8-02 PRIMARY CONTACTS - MONEY MARKET FUNDS No. 1-02 TAX MEMBERS No. 49-02 RE: IRS TECHNICAL ADVICE MEMORANDUM CONCLUDING THAT CAPITAL INFUSIONS TO MONEY MARKET FUNDS ARE DEDUCTIBLE The Internal Revenue Service ("Service") has issued the attached Technical Advice Memorandum¹ (the "TAM") that concludes that an investment adviser may deduct cash transfers into money market funds where the purpose of the transfers was to prevent the funds from having a net asset value of less than \$1.00 per share. The TAM overturns the result in a Field Service Advice issued in 1999, which concluded that such transfers had to be capitalized.² The Service's current reasoning, as expressed in the TAM, is that the investment adviser's payments do not provide "significant long term benefits such that capitalization is required." Rather, the payments are "expenses incurred to protect and preserve [the investment adviser's] business" and are deductible under 162 as ordinary and necessary business expenditures. Catherine Barré Assistant Counsel Attachment (in .pdf format) 1 TAM 200247004 (Nov. 22, 2002). The TAM is available at <http://www.irs.gov/pub/irs-wd/0247004.pdf>. 2 See Institute Memorandum to Accounting/Treasurers Members No. 21-99, Primary Contacts - Money Market Funds No. 1-99, and Tax Members No. 25-99, dated August 3, 1999.