MEMO# 9395

November 7, 1997

YEAR-END TAX REPORTING PROCEDURES

1 This year-end information often is referred to as "reclassified" tax information because of the practice at many brokerage firms to treat distributions from RICs and REITs as ordinary income until advised to "reclassify" the income, such as to long-term capital gain. 2 See Institute Memorandum to Tax Members No. 50-96 and Accounting/Treasurers Members No. 37-96, dated November 8, 1996. [9395] November 7, 1997 TO: TAX MEMBERS No. 43-97 ACCOUNTING/TREASURERS MEMBERS No. 46-97 OPERATIONS MEMBERS No. 28-97 BROKER/DEALER ADVISORY COMMITTEE No. 19-97 TRANSFER AGENT ADVISORY COMMITTEE No. 64-97 RE: YEAR-END TAX REPORTING PROCEDURES ____ The Institute has worked with the Securities Industry Association ("SIA") and the National Association of Real Estate Investment Trusts ("NAREIT") to develop uniform reporting procedures, pursuant to which regulated investment companies ("RICs") and real estate investment trusts ("REITs") will report "reclassified" year-end tax information for 1997.1 This memorandum summarizes agreements reached with respect to the following three aspects of year-end tax reporting: (1) the reporting to RICs by REITs of year-end tax information; (2) the reporting to brokers by RICs of year-end tax information; and (3) standard nomenclature for types of long-term capital gains. Reporting to RICs by REITs of Year-End Tax Information For the second year,2 the Institute will be working with NAREIT to ensure accurate and timely transmission of year-end tax information to holders of REIT interests. Specifically, the Institute will provide to NAREIT a list of RIC "investor contact persons" to whom NAREIT's members will send year-end tax information (such as via fax). This information will be provided to the contact persons as soon as it becomes available (and hopefully no later than Wednesday, January 7, 1998, as requested by the SIA). The Institute has requested that NAREIT's members provide "best estimates" early in December but has been advised that estimates generally will not be available until January. ACTION REQUESTED: If you or someone in your firm would like to be included on NAREIT's listing of persons to receive REIT information, please provide to the undersigned by e-mail (to 3 See Institute Memorandum to Accounting/Treasurers Members No. 45-97, Broker/Dealer Advisory Committee No. 18-97, Operations Members No. 27-97, Tax Members No. 42-97 and Transfer Agent Advisory Committee No. 63-97, dated November 7, 1997. 4 See Institute Memorandum to Tax Committee No. 39-97, Accounting/Treasurers Committee No. 44-97, Marketing Policy Committee No. 33-97, Direct Marketing Committee No. 24-97, Sales Force Marketing Committee No. 24-97, Public Information Committee No. 30-97, Shareholder Communications Committee No. 16-97, Operations Committee No. 37-97, Transfer Agent Advisory Committee No. 62-97, Closed-End Investment Company Committee No. 41-97 and Unit Investment Trust Committee No. 64- 97, dated November 6, 1997. - 2 - lawson@ici.org) or by fax (to 202-326-5841) -- no later than Friday, November 21 -- the contact person's name, telephone number, fax number, e-mail address (if available) and mailing address. All information will be provided by NAREIT's members directly to the

designated contact person. Reporting to Brokers by RICs of Year-End Tax Information The Institute and the SIA have developed (1) a uniform file format to be used by RICs in providing 1997 year-end tax information to brokers, (2) a description of each data element, (3) an explanation of how to use the file and (4) a listing of tax contacts at numerous wirehouse, national and regional brokerage institutions.3 The SIA has requested that all year-end tax information be provided by the RICs to the persons listed as "tax contacts" at the brokerage firms on or before Wednesday, January 7, 1998. Standard Nomenclature for Types of Long-Term Capital Gains The Institute has discussed with members of several committees the nomenclature that they are planning to use during 1997 to describe the "types" of capital gains that, in prior years, all received the same "long-term" gain treatment.4 To maintain consistency with how the Internal Revenue Service ("IRS") describes these types of gains in communications with taxpayers and to minimize shareholder confusion, the members contacted plan to use the following terms to describe the three subcategories of "long-term" gain (i.e., gain on assets held for more than one year): "28 percent rate gain" (i.e., gain taxed at a 28 percent maximum rate); "unrecaptured section 1250 gain" (i.e., gain taxed at a 25 percent maximum rate); and "20 percent rate gain" (i.e., gain taxed at a 20 percent maximum rate). * * * Questions regarding year-end tax reporting may be directed to the undersigned at 202- 326-5832. Specific questions regarding the uniform file layout for use by RICs in reporting year-end tax information to brokers may be directed to Kevin Farragher of the Institute’s Operations Department at 202-326-5848. Keith D. Lawson - 3 - Associate Counsel - Tax

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