

**MEMO# 15444**

December 10, 2002

## **INSTITUTE COMMENTS ON REVENUE PROCEDURE 2002-68 RELATED TO TAXATION OF SYNTHETIC TAX-EXEMPT SECURITIES**

[15444] December 10, 2002 TO: TAX MEMBERS No. 50-02 MONEY MARKET FUNDS ADVISORY COMMITTEE No. 9-02 FIXED-INCOME ADVISORY COMMITTEE No. 15-02 RE: INSTITUTE COMMENTS ON REVENUE PROCEDURE 2002-68 RELATED TO TAXATION OF SYNTHETIC TAX-EXEMPT SECURITIES The Institute has submitted the attached comment letter to the Treasury Department and the Internal Revenue Service regarding Revenue Procedure 2002-68.1 This Revenue Procedure modifies and supercedes the guidance in Revenue Procedure 2002-162 pursuant to which a regulated investment company may take into account each month its allocable share of tax- exempt income from certain synthetic variable rate tax-exempt securities. Specifically, the letter outlines three issues for which additional guidance is necessary. First, the test that requires 95 percent of a partnership's income be derived from tax-exempt obligations should be clarified to specify that capital gains are not included in total income for purposes of that calculation. Second, the default rule with respect to electing application of the Revenue Procedure should be revised to ensure that partnerships and partners intended to be covered thereby do not inadvertently fail to be so covered. Finally, further modifications to the otherwise-applicable partnership reporting requirements are needed to bring closer to balance the costs of reporting with any perceived benefits of such reporting. Catherine Barré Assistant Counsel Note: Not all recipients receive the attachment. To obtain a copy of the attachment, please visit our members website (<http://members.ici.org>) and search for memo 15444, or call the ICI Library at (202) 326-8304 and request the attachment for memo 15444. Attachment (in .pdf format) 1 See, Institute Memoranda to Tax Members No. 43-02, dated October 8, 2002, and to Fixed Income Advisory Committee No. 11-02, Money Market Funds Advisory Committee No. 5-02, and Tax Committee No. 30-02, dated October 9, 2002. 2 See, Institute Memorandum to Tax Members No. 8-02, dated February 22, 2002.