

MEMO# 2564

February 27, 1991

FINAL IRS REGULATIONS ON SOURCING OF INCOME FROM NOTIONAL PRINCIPAL AMOUNT CONTRACTS

February 27, 1991 TO: TAX MEMBERS NO. 7-91 CLOSED-END FUND MEMBERS NO. 10-91 ACCOUNTING/TREASURERS MEMBERS NO. 7-91 RE: FINAL IRS REGULATIONS ON SOURCING OF INCOME FROM NOTIONAL PRINCIPAL AMOUNT CONTRACTS

_____ The Internal Revenue Service has issued the enclosed final regulations relating to the sourcing of income from notional principal contracts. A notional principal contract is a financial instrument, such as an interest rate swap, that provides for the payment of amounts by one party to another at specific intervals calculated by reference to a specific index upon a notional principal amount in exchange for consideration or a promise to pay from the other party. The regulation provides generally that amounts received by U.S. persons, such as regulated investment companies, on notional principal contracts are considered U.S. source income, regardless of the residence of the other party to the contract. The regulation does not, however, apply to section 988 contracts. The rules are effective for amounts includible in income on or after February 13, 1991. David J. Mangefrida, Jr. Assistant Counsel - Tax
Enclosure DJM:bmb

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