

MEMO# 5716

March 28, 1994

SURVEY OF RIC INVESTMENTS IN PARTNERSHIPS

March 28, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 13-94 TAX COMMITTEE
NO. 14-94 RE: SURVEY OF RIC INVESTMENTS IN PARTNERSHIPS

Introduction As you may know, last year the Internal Revenue Service ("IRS") suspended the issuance of private letter rulings relating to the master fund/feeder fund structure, where the master fund in which a regulated investment company ("RIC") invests substantially all of its assets, is treated as a partnership for tax purposes. In particular, the IRS became concerned that a RIC feeder fund could effectively defer its Code section 4982 excise tax obligation to distribute currently its income by contending that the partnership tax rules preclude it from accruing its share of the master fund's income until the close of the master fund's taxable year. Last fall, Treasury Department officials approached the Institute and requested an analysis of the authority to treat a RIC feeder fund as receiving (1) the master fund's capital gain net income on October 31 and (2) the master fund's ordinary income on December 31 (an "October 31/December 31 accrual") without regard to the master fund's taxable year-end. The attached Institute memorandum was prepared in response to this request, with assistance from members of the Tax Committee. In the submission, the Institute noted that an October 31/December 31 accrual could be administered properly only if the RIC were able to obtain the necessary tax information from the partnership. Recent Data Request The IRS has informed the Institute that it is considering guidance that would require October 31/December 31 accruals for all RIC investments in partnerships, with perhaps an exception for those investments that do not exceed a certain de minimis or threshold amount. Such a rule would likely apply significantly beyond the master fund/feeder fund context from which the partnership income accrual issue arose. The IRS has asked the Institute for information regarding the extent to which RICs invest in partnerships outside of the master fund/feeder fund structure. Due to the urgency of the IRS request, we spoke with several fund complexes by telephone and relayed the information we were able to gather to the IRS. The attached survey is intended to assemble a more complete picture of the extent to which RICs invest in partnerships in the hope that the additional data may be helpful in working with the IRS to develop an administrable threshold for applying October 31/ December 31 accruals. Because the IRS has indicated that it is moving quickly on this issue, we request that you fax one survey response for your complex by April 4, 1994 to Peter Cinquegrani at (202) 326-5841 or (202) 326-5839. If you have any questions or comments, please call Peter at (202) 326-5837 or Keith Lawson at (202) 326-5832. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Peter J. Cinquegrani Assistant Counsel - Tax Attachments

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