

**MEMO# 13727**

July 13, 2001

## **2001 YEAR-END TAX REPORTING FORMATS**

[13727] July 13, 2001 TO: ACCOUNTING/TREASURERS COMMITTEE No. 20-01 BANK AND TRUST ADVISORY COMMITTEE No. 10-01 BROKER/DEALER ADVISORY COMMITTEE No. 17-01 OPERATIONS COMMITTEE No. 23-01 TAX COMMITTEE No. 19-01 TRANSFER AGENT ADVISORY COMMITTEE No. 50-01 RE: 2001 YEAR-END TAX REPORTING FORMATS As in prior years, the Institute has been working with representatives of the Securities Industry Association ("SIA"), the American Bankers Association ("ABA") and the National Association of Real Estate Investment Trusts ("NAREIT") to improve the uniform reporting procedures pursuant to which regulated investment companies ("RICs") and real estate investment trusts ("REITs") will report "reclassified"<sup>1</sup> year-end tax information. Attached to this memorandum are the final "primary" and "secondary" uniform file formats to be used by RICs to report 2001 year-end tax information to brokers and banks. Also attached to this memorandum is the final reporting format to be used by RICs or REITs that have declared an "undistributed long-term capital gain" reportable to shareholders on Form 2439. The 2001 primary layout contains the information required to prepare IRS Forms 1099 for shareholders. The 2001 secondary layout A is used to provide CUSIP-level tax information to banks and brokers regarding (1) "preference items" for taxpayers subject to the alternative minimum tax, (2) the Florida intangible personal property tax, (3) distributions from foreign sources, (4) threshold requirements to distribute exempt-interest dividends in certain states, and (5) year-end income breakdowns by State for municipal bond funds and by type of security (i.e., "Exempt Federal Securities" and "Non-Exempt Securities") for other bond funds. The 2001 secondary layout B is used to provide DISTRIBUTION-level tax information to banks and brokers regarding the Massachusetts capital gains tax. Each of the attached 2001 formats includes a separate sheet for a RIC to designate a year-end tax information contact person to whom banks and brokers may direct questions regarding the RIC's reported information. <sup>1</sup> This year-end information often is referred to as "reclassified" tax information because of the practice at many brokerage firms and banks to treat distributions from RICs and REITs as ordinary income until advised to "reclassify" the income, such as to long-term capital gain. <sup>2</sup> Significant changes have been made to the 2001 uniform file formats, including changes required to accommodate the new "qualified 5-year" capital gain rate of 8 percent that applies to distributions to certain shareholders, beginning in 2001.<sup>2</sup> As described below, NSCC's Mutual Fund Profile Phase II (MFPS II) and the NSCC Networking record layouts also will be modified to include the 5-year capital gain rate information. SUMMARY OF CHANGES TO PRIMARY LAYOUT • SIA Requested Reporting Date. The SIA has requested that RICs provide all year-end tax information no later than Monday, January 7, 2002 for information on the primary layout. As in prior years, the SIA has requested that RICs provide any final year-end tax information (such as for fixed income files) as soon as it becomes available in advance of this date on a piece-meal basis.

Where a RIC "reclassifies" a long-term capital gain as a qualified 5-year gain, certain brokers may be unable to process this reclassification for originally issued Forms 1099-DIV unless it is received by January 7, 2002. • All numerical data should be reported as six (6) digits after the decimal point. • References to applicable Form 1099-DIV reporting box(es) have been added to each column and the instructions. • The "Status" column has been replaced with new reporting items/columns for (1) "reclassified" distributions or final distributions from merged RICs, (2) estimated or corrected distributions, and (3) "split-year" distributions under IRC 852(b)(7). • A column has been added for the new qualified 5-year capital gain rate of 8 percent that applies to distributions to certain shareholders, beginning in 2001. • New columns have been added to accommodate cash and non-cash liquidating distributions. • The alternative minimum tax reporting column has been moved to secondary layout A. The "Issuer Classification" column has been eliminated. • All footnoted items have been eliminated. • A separate sheet has been added for RICs to designate a year-end tax information contact person to whom banks and brokers may direct questions regarding the RIC's reported information. This sheet will replace the "RIC Information Providers" list compiled by the Institute for this purpose in prior years.

2 Changes to the uniform file formats will be made at a later time to accommodate the additional qualified 5-year capital gain rate of 18 percent that is scheduled to become effective for distributions to certain shareholders, beginning in 2006.

3 SUMMARY OF CHANGES TO SECONDARY LAYOUT • SIA Requested Reporting Date. The SIA has requested that RICs provide all year-end tax information no later than Monday, January 14, 2002 for information on secondary layouts A and B. As in prior years, the SIA has requested that RICs provide any final year-end tax information (such as for fixed income files) as soon as it becomes available in advance of this date on a piece-meal basis. • As described above, the secondary layout has been split into a secondary layout A (for reporting CUSIP-level tax information) and secondary layout B (for reporting DISTRIBUTION-level tax information). • All numerical data should be reported as six (6) digits after the decimal point. • In addition to year-end income breakdowns by State for municipal bond funds and by type of security (i.e., Exempt Federal Security and Non-Exempt Securities) for other bond funds, secondary layout A now accommodates tax information regarding: -- Preference items for shareholders subject to the alternative minimum tax; -- Florida's intangible personal property tax; -- Foreign source income distributed by a RIC; and -- States where threshold requirements for exempt-interest dividends are not satisfied by a RIC. • Secondary layout B accommodates tax information regarding distributions subject to the Massachusetts capital gains tax. • All footnoted items have been eliminated. • A separate sheet has been added for RICs to designate a year-end tax information contact person to whom banks and brokers may direct questions regarding the RIC's reported information. This sheet will replace the "RIC Information Providers" list compiled by the Institute for this purpose in prior years.

SUMMARY OF CHANGES TO UNDISTRIBUTED LONG-TERM CAPITAL GAINS LAYOUT • All numerical data should be reported as six (6) digits after the decimal point. • A column has been added for the new qualified 5-year capital gain rate of 8 percent that applies to distributions to certain shareholders, beginning in 2001. • The "Status" column has been changed to a "Corrected" column.

4 MODIFICATIONS TO NSCC'S MUTUAL FUND PROFILE PHASE II AND NETWORKING RECORDS In order to accommodate the reporting requirements for qualified 5-year capital gains, distribution records for several NSCC mutual fund services will be modified. These changes will be made to NSCC's Mutual Fund Profile Phase II (MFPS II) and the Networking record layouts and will allow participants to use either the mainframe or PC Web Direct. The record layouts will also be changed to provide the 5-year capital gain rate information at the time of distribution declaration in the event that a fund elects to provide this information at dividend declaration. These changes will become effective November 12, 2001. Please see the attached NSCC Concept Paper for specific

details regarding these modifications to the NSCC services. In addition, the Institute and NSCC have been working with DTC to allow year-end spreadsheet information sent to DTC's service "DTAX" to upload and populate the fields on Mutual Fund Profile Phase II. Currently, the SIA includes the Depositary Trust Company on its list of "tax contacts" to whom Institute members are asked to send their year-end tax reporting spreadsheets. These spreadsheets are then posted on DTC's website, DTAX, a service provided to DTC participants to obtain year-end tax information. NSCC and DTC have indicated to the Institute that this information can then be uploaded systematically from DTAX to MFPS II so that those brokers and banks using MFPS II also will have access to this information and fund companies will not have to re-key this information into MFPS II. Additional information regarding this project will be sent in a separate memo to ICI members later this month. \* \* \*

As in prior years, the Institute will distribute updated listings of "tax contacts" at banks and brokerage firms to whom RICs should send year-end tax information as soon as they are provided by the ABA and SIA, respectively. The Institute also will distribute the procedures for RICs to access 2001 year-end tax information of REITs when they are provided by NAREIT. Questions regarding year-end tax reporting may be directed to Deanna Flores of the Institute's Legal Department at [dflores@ici.org](mailto:dflores@ici.org) or 202/371-5436. Specific questions regarding the uniform file layouts for use by RICs in reporting year-end tax information to banks and brokers or MFPS II may be directed to Justine Phoenix of the Institute's Operations Department at [justine@ici.org](mailto:justine@ici.org) or 202/326-5850. Deanna J. Flores Justine Phoenix Associate Counsel Director - Operations/Distribution & Services File formats in Excel (self-extracting zip file) Attachment no. 1 (in .pdf format)

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.