

**MEMO# 1213**

June 13, 1989

## **YEAR-END TAX REPORTING**

June 13, 1989 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 22-89 INDEPENDENT  
ACCOUNTANTS ADVISORY GROUP RE: YEAR-END TAX REPORTING

At the committee's last meeting, on March 30, 1989, volunteers were solicited to form part of a liaison group consisting of individuals from the Accounting/Treasurers Committee (ATC) and the Broker/Dealer Advisory Committee (BDAC). The group was formed to address concerns of the broker/dealer representatives on the BDAC regarding year-end tax information reporting by mutual funds to broker/dealers that maintain shareholder accounts in "street name." The membership of the ATC/BDAC Liaison Group is as follows: ACCOUNTING/TREASURERS COMMITTEE: Susan Cote - Prudential Mutual Funds John Gargana - Lord, Abbett David Karam - Carnegie Jeff Nachman - Dreyfus Vincent Nave - The Boston Co. BROKER/DEALER ADVISORY COMMITTEE: John Cirrito - Prudential-Bache Tom Medlin - Piper Jaffray Emil Polito - PaineWebber John Nolan - Raymond James & Asso. Alan Rubin - Shearson Lehman Hutton The group held its first meeting on June 8, 1989. The discussion centered around (1) problems encountered by broker/dealers regarding the accuracy and timeliness of tax reporting by funds, (2) the difficulties encountered by funds in accurately estimating income for December dividend payments, and (3) possible means by which the concerns of the broker/dealers may be satisfied. In attendance at the meeting were: ACCOUNTING/TREASURERS COMMITTEE: John Gargana - Lord, Abbett Jeff Nachman - Dreyfus Vincent Nave - The Boston Co. -2- BROKER/DEALER ADVISORY COMMITTEE: John Cirrito - Prudential-Bache John Nolan - Raymond James & Asso. Alan Rubin - Shearson Lehman Hutton Robin Wallick - Piper Jaffray (attending for Tom Medlin) ICI STAFF: Donald O'Connor Don Boteler Keith Lawson The broker/dealer participants stated that due largely to post year-end adjustments necessitated by reallocations of prior distributions, the necessary information has often not been provided by the funds in sufficient time to process and mail 1099's by January 31. They expressed a strong desire to have complete and final year-end information on dividend reclassifications in sufficient time to comply with the IRS reporting deadline. They also wish to avoid the expense of issuing amended 1099's after January 31 and the attendant customer relations problems. The fund representatives described some of the difficulties inherent in estimating income for year-end dividend payments, particularly for funds with substantial Section 988 currency transactions. When an estimate turns out to be wrong, a reclassification may be unavoidable. That leaves open the question of how timely the corrected information can be provided. A related problem is that broker/dealers relying on dividend information supplied by public sources often do not have complete information. For example, dividend payments reported to S&P on a book basis may have a materially different tax basis. Moreover, the tax composition of dividend payments (ordinary income, capital gains, return of capital) is not available through S&P. In attempting to reach a reasonable compromise regarding the need for more timely reporting to broker/dealers, the group decided to bring to the full committee for discussion a

proposed industry standard deadline of January 15. The group's fund representatives agreed that most of their funds would be able to meet a January 15 deadline and believe that a large majority of funds in the larger fund groups would be able to meet a January 15 deadline without much difficulty. To assist the Institute in obtaining a profile of the industry on this matter, each committee member is requested to complete the attached form , providing (1) the number of funds in your group, (2) the funds for which a January 15 deadline would be difficult, and (3) brief -3- explanations as to the nature of any difficulties. Please bring the completed form with you to the June 20 committee meeting, or if you are not attending the meeting, please send me the form by June 23. In discussing the related issue of the adequacy of dividend information furnished by public sources, the group considered the possibility of working toward the development of a central reporting facility dedicated exclusively to the collection and dissemination of year-end tax reporting information for mutual funds. Such a facility would ideally contain more complete information than is currently provided by independent sources and relieve fund groups that sell through an extensive broker/dealer network of having to report separately to each broker/dealer. Questions to be discussed at the June 20 committee meeting regarding this item include what information should be reported, how it should be reported and disseminated, and what organization should develop the facility. We look forward to seeing you on June 20 and we will keep you advised of developments. Donald J. Boteler Director of Operations/ Fund Accounting Attachment

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