

**MEMO# 7034**

June 16, 1995

## **INSTITUTE SUBMISSION TO IRS ON PREFERENTIAL DIVIDEND ISSUES FOR MULTIPLE-CLASS FUNDS**

\* See Institute Memorandum to Tax Committee No. 20-95 and Accounting/Treasurers Committee No. 20-95, dated May 22, 1995. June 16, 1995 TO: TAX COMMITTEE No. 23-95 ACCOUNTING/TREASURERS COMMITTEE No. 22-95 RE: INSTITUTE SUBMISSION TO IRS ON PREFERENTIAL DIVIDEND ISSUES FOR MULTIPLE-CLASS FUNDS

\_\_\_\_\_ As you know\*, a subcommittee of the Tax and Accounting/Treasurers Committees met on June 12 to discuss various preferential dividend issues that arise under Internal Revenue Code ("Code") section 562(c), particularly as they relate to multiple-class funds. At the meetingGs conclusion, it was agreed that the Institute would submit to the Internal Revenue Service ("IRS") the attached memorandum (a draft of which was considered at the meeting). In the memorandum, we urge issuance of a revenue procedure stating that the IRS will not assert that dividends paid by a multiple-class fund are preferential under Code section 562(c) if: (1) each class has a different arrangement for the distribution of its shares or for the provision of shareholder services; (2) each class is bona fide, meaning that each class is either publicly offered or has at least 500 beneficial owners; (3) expenses of the different arrangements for distribution of shares or shareholder services are allocated to the class to which the arrangement applies; (4) expenses that are otherwise associated with a class (either because they relate to a class-specific service provided to that class or because they represent the incremental cost of providing a "common service" to the class) are either allocated to the class or treated as a fund-wide expense; and (5) advisory expenses, custodial expenses and other expenses associated with the fundGs portfolio are treated as fund-wide expenses and allocated proportionately to all of the fundGs shareholders. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Attachment

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