MEMO# 10476

November 13, 1998

INSTITUTE COMMENTS ON PROPOSED TAX REPORTING REQUIREMENTS FOR WIDELY HELD FIXED INVESTMENT TRUSTS

1 See Institute Memorandum to Tax Members No. 27-98, Unit Investment Trust Members No. 16-98 and Accounting/Treasurers Members No. 22-98, dated August 25, 1998. [10476] November 13, 1998 TO: UNIT INVESTMENT TRUST MEMBERS No. 32-98 TAX COMMITTEE No. 37-98 ACCOUNTING/TREASURERS COMMITTEE No. 50-98 RE: INSTITUTE COMMENTS ON PROPOSED TAX REPORTING REQUIREMENTS FOR WIDELY HELD FIXED INVESTMENT TRUSTS ____ As we previously informed you, the Internal Revenue Service ("IRS") has issued proposed regulations that are intended to "clarify" the tax reporting obligations imposed upon trustees and middlemen with respect to interests in widely held fixed investment trusts.1 In general, the proposed regulations would apply to those unit investment trusts ("UITs"): (1) in which any interest is held by a middleman (i.e., custodians, nominees and brokers holding positions for customers in "street name"); and (2) that are treated for federal tax purposes as grantor trusts, rather than as regulated investment companies. The regulations are proposed to be effective for calendar years beginning after the date on which they are finalized. In response to the proposed regulations, the Institute has submitted the attached comments, which: . describe generally the structure and operation of UITs, including the "disconnect" between portfolio information generally maintained by trustees and beneficial owner information generally maintained by middlemen; . explain that UIT trustees and sponsors fully comply with existing tax information reporting rules; . demonstrate the considerable difficulties that would arise in applying the new tax reporting framework of the proposed regulations, even on a prospective basis, to existing UITs; . recommend that any regulatory changes to UIT tax reporting requirements apply only to trusts formed a reasonable period after the date on which final regulations are published in the Federal Register; and . urge the IRS to abandon the tax reporting model of the proposed regulations and to consider adopting an alternative approach, such as a receipts- based mortgage pool model or a model that incorporates long-standing, UIT industry tax reporting practices. Deanna J. Flores Assistant Counsel Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Library Services Division at (202)326-8304, and ask for this memo's attachment number: 10476.