

**MEMO# 11615**

February 8, 2000

# **ADMINISTRATION'S PROPOSAL TO REQUIRE FUND DISTRIBUTORS TO CAPITALIZE COMMISSIONS PAID ON SALE OF B SHARES**

[11615] February 8, 2000 TO: BOARD OF GOVERNORS No. 7-00 RE: ADMINISTRATION'S PROPOSAL TO REQUIRE FUND DISTRIBUTORS TO CAPITALIZE COMMISSIONS PAID ON SALE OF B SHARES

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As discussed at the Board of Governors' meeting last week, the Institute and the Internal Revenue Service have been discussing for almost ten years the proper tax treatment of commissions paid by mutual fund distributors in connection with the sale of B shares. In 1993, the IRS National Office issued guidance that permitted a fund distributor to deduct commissions paid on the sale of B shares. Although the National Office's position has been confirmed on several occasions, IRS field agents have continued to raise this issue on audits of fund distributors. The Clinton Administration has proposed, as part of its FY 2001 budget proposal, that mutual fund distributors capitalize commissions paid on the sale of B shares and amortize those amounts over the period during which a contingent deferred sales charge would be imposed on redemptions. The proposal would be effective for commissions paid or incurred in taxable years ending after the date of enactment. The Administration does not intend that its proposal have any inference with respect to the treatment of a distributor's commissions under current law. Matthew P. Fink President  
Attachment