

MEMO# 2161

August 31, 1990

BACKUP WITHHOLDING AND "B" NOTICE DEVELOPMENTS

- 1 - August 31, 1990 TO: OPERATIONS COMMITTEE NO. 20-90 TAX COMMITTEE NO. 25-90
TRANSFER AGENT ADVISORY COMMITTEE NO. 33-90 RE: BACKUP WITHHOLDING AND "B"
NOTICE DEVELOPMENTS _____ As you

may know, the Institute met with the Internal Revenue Service earlier this month regarding our ongoing concerns with "B" Notices. Prior to that meeting the Institute had met with interested members to discuss the problems which had arisen under this summer's test mailing of "B" Notice tapes by the Internal Revenue Service and any additional problems which members have encountered. After the meeting with the Service, we were informed unofficially that two of our concerns will be addressed in the final regulations, which are expected to be issued in the near future. The Institute previously has informed the Service that it is impossible for funds to comply with the regulations' current requirement that notices of incorrect taxpayer identification numbers ("TINs") be mailed to shareholders within five business days after the date shown on the IRS notification. The Service has indicated that this response period will be lengthened to 15 days (possibly business days, although that is not clear). In addition, the Service had previously indicated that the notification of incorrect TINs would be mailed two or three weeks prior to the date on the notice, possibly giving a total of up to six weeks for mailing notices to shareholders. Also, the Service advised us that the grace period following receipt of the notice of an incorrect TIN before which backup withholding must be imposed will be changed to 30 business days for all types of reportable payments. Previously, the regulations had provided that backup withholding was required after 7 business days for shareholder redemptions, and after 30 days for dividends. As a practical matter, many funds were unable to differentiate between different types of reportable payments. - 2 - At our meeting with the Service the system for determining where to send "B" Notice tapes also was explained. There are apparently two master address files, the Payor Master File, in which addresses are kept from Forms 1096 and 1099, and the Business Master File, in which all other tax return addresses are stored. The two files are linked so that a change in one address file is a change to both. When the Service receives a tax return, the address on the return is checked against the address in the master files, and if the addresses do not match, the master files are updated to have the same address as in the return.

Alternatively, a taxpayer may submit a Form 8822, a copy of which is attached, to change the address in both master files. To insure that your October "B" Notice tapes are sent to the proper address, a separate Form 8822 may be completed for each fund in the complex. All subsequent tax returns of the fund must continue to bear the new address. We will keep you informed of further developments. David J. Mangefrida, Jr. Assistant General Counsel
Attachment

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