

MEMO# 16515

September 9, 2003

DISCUSSION OUTLINE FOR WEDNESDAY CONFERENCE CALL TO DISCUSS REPORTING REQUIREMENTS FOR IRS FORM 1099-Q

[16515] September 9, 2003 TO: 529 PLAN ADVISORY COMMITTEE No. 50-03 OPERATIONS COMMITTEE No. 17-03 PENSION COMMITTEE No. 33-03 PENSION OPERATIONS ADVISORY COMMITTEE No. 57-03 TAX COMMITTEE No. 57-03 TRANSFER AGENT ADVISORY COMMITTEE No. 84-03 RE: DISCUSSION OUTLINE FOR WEDNESDAY CONFERENCE CALL TO DISCUSS REPORTING REQUIREMENTS FOR IRS FORM 1099-Q A conference call has been scheduled for Wednesday, September 10, 2003 at 2:00 p.m. EDT to discuss Notice 2003-53, which delays the reporting of earnings and basis with respect to Coverdell Education Savings Accounts, which had been required by Forms 1099-Q and 5498-ESA, released earlier this year.¹ As the Institute noted in its submission made following the release of Form 1099-Q,² ESA recordkeepers do not presently have the information necessary to calculate earnings and basis. While the Institute has urged that earnings and basis calculations should remain the responsibility of the ESA account holder, we also have urged (should the earnings and basis reporting requirements remain) that any reporting obligation be imposed prospectively, for new accounts opened after a transition period sufficient to permit recordkeepers to comply with the new requirements. Public comment is requested by the IRS on sources of information to establish earnings and basis that should be considered satisfactory and on an appropriate rule for determining earnings and basis if documentation is not available. The IRS states that these comments are to be provided by October 17, 2003. ¹ See Institute Memorandum No. 15656, to 529 Plan Advisory Committee No. 11-03, Operations Members No. 6-03, Pension Members No. 9-03, Pension Operations Advisory Committee No. 8-03, Tax Members No. 11-03 and Transfer Agent Advisory Committee No. 19-03, dated February 19, 2003. ² See Institute Memorandum No. 15981, to 529 Plan Advisory Committee No. 25-03, Operations Members No. 13-03, Pension Members No. 19-03, Pension Operations Advisory Committee No. 23-03, Tax Members No. 26-03 and Transfer Agent Advisory Committee No. 42-03, dated April 30, 2003. Below is a discussion outline that we will use to help focus Wednesday's discussion. If you have any questions, you may also contact me at 202-326-5835 or lrobinson@ici.org.

I. Why Reporting Requirements Should Not Be Applied to Existing Accounts

A. Information Necessary to Calculate Basis and Earnings Typically Not Available

B. Any Effort to Reconstruct Information Will Be Expensive, Result in Incomplete Data and Contain Data That Cannot Be Verified

II. Transition Issues if Reporting is to Apply to Existing Accounts

A. Rules for Determining Basis and Earnings

B. Effective Date for Reporting Basis and Earnings

C. Transition Period for Closing ESA Accounts

III. Reporting for New Accounts Could Occur After

a Reasonable Transition Period A. Why Reporting Cannot Be Implemented Immediately for New Accounts B. Difficulties of Gathering Basis and Earnings Data for Many New Accounts IV. Basis and Earnings Calculations Should Remain Responsibility of Account Owner A. Reporting Regime Would Provide Only Modest Compliance Benefits, As Most Withdrawals Will Remain Tax-Exempt B. Reporting Responsibility Could Limit Investment Choices V. Clarification and Technical Issues VI. Conclusion Lisa Robinson Assistant Counsel

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