

**MEMO# 20058**

May 18, 2006

## **Tax-Exempt Interest Reporting and Backup Withholding - Conference Call on Friday, May 19**

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [20058] May 18, 2006 TO: TAX COMMITTEE No. 20-06 TRANSFER AGENT ADVISORY COMMITTEE No. 34-06 RE: TAX-EXEMPT INTEREST REPORTING AND BACKUP WITHHOLDING - CONFERENCE CALL ON FRIDAY, MAY 19 A conference call has been scheduled for Friday, May 19, 2006 at 2:00 p.m. EDT to discuss reporting and withholding issues arising from a provision in the Tax Increase Prevention and Reconciliation Act (the "Act") that eliminates the exception from information reporting requirements for interest paid on tax-exempt bonds.<sup>1</sup> This change applies to interest paid after December 31, 2005. During the call, we will discuss whether to file comments seeking clarification of the implications of the changes for RICs. If you would like to participate in the call, please complete the attached response form and fax it to Ezella Wynn at 202-326-5841 or ewynn@ici.org. To access the call, please dial 888-810-3142 and enter passcode 12906. As we previously informed you, the Act amends section 6049's requirement for information reporting of interest by striking a provision that excluded tax-exempt interest from the definition of "interest." The Act does not amend section 6042, which provides the information reporting requirements for dividends (including exempt-interest dividends paid by RICs that are treated for income tax purposes as tax-exempt interest). While the Act does not amend section 3406, the Act's changes to section 6049 make tax-exempt interest a "reportable payment" under section 3406. Because the backup withholding rules of section 3406 apply to reportable payments, an extension of the definition of "reportable payment" to 1 See ICI Memorandum (20024) to Adviser Distributor Tax Issues Task Force No. 6-06, International Members No. 8-06, Operations Members No. 12-06, Pension Members No. 36-06 and Tax Members No. 15-06, dated May 12, 2006. 2 include tax-exempt interest appears to bring these payments within the backup withholding regime retroactive to January 1, 2006. All of these issues will be discussed during the call. Lisa Robinson Associate Counsel Attachment (in .pdf format)