

ICI Letter Urges Changes to Tax Reporting Legislation, September 2007

September 21, 2007

The Honorable Charles B. Rangel
Chairman
Committee on Ways & Means
U.S. House of Representatives
2354 Rayburn House Office Building
Washington, DC 20515

The Honorable Jim McCrery
Ranking Minority Member
Committee on Ways & Means
U.S. House of Representatives
242 Cannon House Office Building
Washington, DC 20515

Re: Mandatory Cost Basis Reporting for Mutual Funds

Dear Chairman Rangel and Ranking Member McCrery:

The Investment Company Institute,¹ on behalf of mutual funds and their shareholders, urges the Committee on Ways & Means to consider certain important changes to H.R. 878, the Simplification Through Additional Reporting Tax ("START") Act of 2007. As you know, the START Act would mandate cost basis reporting by brokers (including mutual funds) on the sale or redemption of certain securities.

The Institute and its members support efforts to assist taxpayers in complying with their tax obligations. For this very reason, a substantial portion of the mutual fund industry has voluntarily provided basis information to a significant, and growing, portion of its shareholders over the past fifteen years.

Changes urged by the Institute are needed so that mandatory cost basis reporting is administrable and effective for shareholders, funds, brokers and other distributors, and the government. Mandatory cost basis reporting for all shareholders will require a number of difficult and costly programming and systems changes. Further, the basis adjustments required by the Internal Revenue Code can be complex and may require information not known to funds. Our recommendations will ensure that funds are able to comply with the new requirements and that the information provided to shareholders is accurate and useful. Implementing a cost basis reporting regime without taking these considerations into account will impose considerable burdens on all parties, including the government, without providing significant utility to tax administration.

Second, an appropriate effective date must be provided so that the necessary programming and systems challenges are addressed effectively. Although a majority of funds currently provide basis information to a majority of their shareholders voluntarily, the systems are not perfect and may not take into account all basis adjustments. A number of smaller funds may not provide this information currently to any shareholders and will have to start from scratch. Also, many of the systems required to transfer cost basis information between funds and brokers do not exist today. Importantly, funds cannot begin building the required systems until it is clear what exactly will be required by the statute and Treasury regulations. Therefore, funds must be given sufficient time after the enactment of any mandatory basis reporting regime to implement the new rules.

Finally, it is imperative that the flexibility under current law, which allows mutual funds and their shareholders to compute cost basis under any available method, be maintained. Under current law, fund shareholders may choose between three different cost basis methods. Any limitation on these available methods would be a tax increase on savings and could create shareholder confusion. In addition, the bill should not restrict in any way a fund's ability to provide this information under any available method or require that

funds report cost basis using the method chosen by the taxpayer. These restrictions would impose significant burdens and additional costs on funds without sufficient increases in tax compliance.

The Institute and its members are committed to enactment of an effective cost basis reporting bill. We have had many discussions with staff from the Finance Committee, the Ways & Means Committee, the Joint Committee on Taxation, and the Treasury Department regarding the basis reporting proposals. We have worked closely with industry experts to develop recommendations that are workable for the industry while fulfilling the government's goal of improving tax compliance. We hope you will consider these recommendations as this legislation moves forward, and we look forward to working with you further.

Should you have any questions or require further information in this regard, please do not hesitate to contact me.

With very best regards.

Sincerely,

Paul Schott Stevens
President & CEO

ENDNOTES

¹ ICI members include 8,803 open-end investment companies (mutual funds), 671 closed-end investment companies, 457 exchange-traded funds, and four sponsors of unit investment trusts. Mutual fund members of ICI have total assets of approximately \$11.140 trillion (representing 98 percent of all assets of U.S. mutual funds); these funds serve approximately 93.9 million shareholders in more than 53.8 million households.

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