

## CLIENT MEMORANDUM

# New IRS Rules for Money Market Funds & Investor Tax Reporting

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## AUTHOR

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On July 7, 2016, the Internal Revenue Service issued final regulations simplifying the method of accounting used by shareholders of money market funds to calculate gains and losses.<sup>1</sup> These regulations were originally proposed in 2014.<sup>2</sup> On the same day, the IRS issued Revenue Procedure 2016-39 to assist investors with implementing the new rules.<sup>3</sup>

In 2014, the Securities and Exchange Commission adopted rules requiring institutional money market funds to price and transact in their shares based on the market value of underlying fund holdings, that is, to have floating net asset values (“NAV”), rather than having stable NAVs of \$1 per share. The SEC rules allow retail money market funds and U.S. government-only money market funds to continue to use stable NAVs.

The new IRS regulations detail a special tax accounting method for investors in floating-NAV money market funds, the “NAV method.” Under the NAV method, a shareholder in a floating-NAV money market fund measures the realized gain or loss for a particular year for the investment in the money market fund by comparing the aggregate ending value of the

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<sup>1</sup> T.D. 9774, available [here](#).

<sup>2</sup> Federal Register, July 28, 2014 (REG-107012-14), available [here](#).

<sup>3</sup> Rev. Proc. 2016-39, available [here](#).

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shares held with the aggregate beginning value of the shares held at the beginning of the year, then plus or minus the net purchases and redemptions made during the year.

The NAV method will also be available for investors in stable-NAV money market funds.

In addition, the regulations confirm that the wash sales rules will continue to apply to investments in stable-NAV money market funds, but investors in such funds can avoid wash sales by using the NAV method. The SEC rules above permit or require the implementation of a liquidity fee on investor redemptions in certain situations; this can result in realized tax losses, and then wash sales disallowing such losses, for shareholders who redeem some of their money market shares but retain the rest and continue to reinvest their dividends. In 2014, the IRS announced that the wash sale rules would not be applied to redemptions of shares in floating-NAV money market funds. Because these new regulations permit shareholders of stable-NAV money market funds to use the NAV accounting method, a shareholder who does so would not require an exemption from the wash sale rules, because the NAV method does not require adjustments for wash sales.

Revenue Procedure 2016-39, issued with the final regulations, sets forth a simplified process for an investor to adopt the NAV method.

Additionally, money market fund shareholders will be allowed to use different accounting methods for shares held in different money market funds and different accounting methods for shares in the same money market fund held in different accounts. The NAV method is available to RICs invested in money market funds and would be used for both income tax and excise tax income calculations.

The final IRS regulations and Rev. Proc. 2016-39 are effective for taxable years ending on or after July 8, 2016. For taxable years ending on or after July 28, 2014 and beginning before July 8, 2016, shareholders of money market funds may rely either on the final regulations or the earlier proposed regulations.

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If you have any questions regarding this memorandum, please contact Joseph Riley (212-728-8715; jriley@willkie.com) or the Willkie attorney with whom you regularly work.

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