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[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-107012-14]

RIN 1545-BM04

Method of Accounting for Gains and Losses on Shares in Certain Money Market Funds; Broker Returns with Respect to Sales of Shares in Money Market Funds

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and notice of public hearing.

SUMMARY: This document contains proposed regulations that provide a simplified method of accounting for gains and losses on shares in money market funds (MMFs) that distribute, redeem, and repurchase their shares at prices that reflect market-based valuation of the MMFs' portfolios and more precise rounding than has been required previously (floating net asset value MMFs, or floating-NAV MMFs). The proposed regulations also provide guidance regarding information reporting requirements for shares in MMFs. The proposed regulations respond to Securities and Exchange Commission (SEC) rules that change how certain MMF shares are priced. The proposed regulations affect floating-NAV MMFs and their shareholders. This document also contains requests for comments and provides notice of a public hearing on these proposed regulations.

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DATES: Written or electronic comments must be received by **[INSERT DATE 90 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

Outlines of topics to be discussed at the public hearing scheduled for November 19, 2014, must be received by **[INSERT DATE 90 DAYS AFTER PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]**.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-107012-14), Room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-107012-14), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington, DC, or sent electronically, via the Federal eRulemaking portal at www.regulations.gov (IRS REG-107012-14). The public hearing will be held in the IRS Auditorium, Internal Revenue Building, 1111 Constitution Avenue, N.W., Washington, DC.

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Grace E. Cho at (202) 317-6895; concerning submissions of comments, the hearing, and/or to be placed on the building access list to attend the hearing, Oluwafunmilayo (Funmi) Taylor at (202) 317-6901 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

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Background

This document contains proposed amendments to 26 CFR part 1 (Income Tax Regulations) under sections 446 and 6045 of the Internal Revenue Code (Code). These proposed regulations provide a method of accounting for gain or loss on shares in floating-NAV MMFs. The proposed regulations are intended to simplify tax compliance for holders of shares in MMFs affected by SEC regulations that change how certain MMF shares are priced. See Money Market Fund Reform; Amendments to Form PF, Securities Act Release No. 33-9616, Investment Advisers Act Release No. IA-3879, Investment Company Act Release No. IC-31166, Financial Reporting Codification No. FR-84 (SEC MMF Reform Rules).

An MMF is a type of investment company registered under the Investment Company Act of 1940 (1940 Act) and regulated as an MMF under Rule 2a–7 under the 1940 Act (17 CFR §270.2a–7). Unlike other types of mutual funds, MMFs have historically sought to keep stable (typically at \$1.00) the prices at which their shares are distributed, redeemed, and repurchased.

To hold itself out to investors as an MMF, an investment company must meet the requirements specified in Rule 2a–7, which, among other things, establishes limitations as to the maturity, quality, diversification, and liquidity of an MMF's investments. Generally, an MMF must hold a diversified portfolio of short-term, low-risk, liquid

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securities. The securities that an MMF holds generally result in no more than minimal fluctuations in the MMF's net asset value per share (NAV).

Until the SEC MMF Reform Rules change how certain MMFs price their shares, Rule 2a-7 permits any MMF meeting the other requirements of Rule 2a-7 to compute its price per share for purposes of distribution, redemption, and repurchase by using either or both of (a) the amortized cost method of valuation, and (b) the penny-rounding method of pricing. Under the amortized cost method, an MMF's NAV is determined by valuing the fund's portfolio securities at their acquisition cost, adjusted for amortization of premium or accretion of discount. Under the penny-rounding method, an MMF's NAV is rounded to the nearest one percent in computing the price per share for purposes of distribution, redemption, and repurchase. These methods have enabled MMFs to maintain constant share prices except in situations in which the "deviation [of the current net asset value per share calculated using available market quotations] from the money market fund's amortized cost price per share exceeds ½ of 1 percent" (commonly called "breaking the buck"). 17 CFR §270.2a-7(c)(8)(ii)(B).

The perceived safety and simplicity of MMFs have led to their widespread use for cash management purposes. It is therefore common for investors to purchase and redeem MMF shares frequently. An MMF is often used as an account into which, or from which, cash is automatically deposited, or withdrawn, on a daily basis (commonly referred to as a sweep arrangement). MMFs generally declare dividends daily and

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distribute them monthly. MMF shareholders typically reinvest these distributions automatically in the MMF.

In June 2013, the SEC proposed rules that would change how certain MMF shares are priced. See Money Market Fund Reform; Amendments to Form PF, Securities Act Release No. 33-9408, Investment Advisors Act Release No. IA-3616, Investment Company Act Release No. IC-30551, 78 FR 36834 (June 19, 2013) (SEC MMF Reform Proposal). The SEC MMF Reform Rules adopt the general approach of the SEC MMF Reform Proposal, but include various modifications in response to comments and combine the two principal reform alternatives. (These alternatives were Floating Net Asset Value and Standby Liquidity Fees and Gates. See SEC MMF Reform Proposal at 36849 and 36878. The proposal included a number of other possibilities, including a combination of these two.) The SEC MMF Reform Rules generally bar the use of the amortized cost method of valuation and the use of the penny-rounding method of pricing, except by government MMFs and retail MMFs. A government MMF is an MMF that “invests 99.5 percent or more of its total assets in cash, government securities, and/or repurchase agreements that are collateralized fully.” SEC MMF Reform Rules, §270.2a–7(a)(16). A retail MMF is an MMF that “has policies and procedures reasonably designed to limit all beneficial owners of the fund to natural persons.” *Id.* §270.2a–7(a)(25). In the case of an MMF that is neither a government MMF nor a retail MMF, the SEC MMF Reform Rules require the MMF to

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value its portfolio securities using market-based factors and to “compute its price per share for purposes of distribution, redemption and repurchase by rounding the fund’s current net asset value per share to a minimum of the fourth decimal place in the case of a fund with a \$1.0000 share price or an equivalent or more precise level of accuracy for money market funds with a different share price (e.g. \$10.000 per share, or \$100.00 per share).” Id. §270.2a–7(c)(1)(ii). (This method of computing the price per share is referred to hereafter as “basis point rounding.”)

An MMF that uses market factors to value its securities and uses basis point rounding to price its shares for purposes of distribution, redemption, and repurchase has a share price that is expected to change regularly, or “float.” (This fact explains the origin of the term “floating-NAV MMF.”) Floating-NAV MMFs therefore resemble in some respects other mutual funds that are not MMFs, but they remain subject to the risk-limiting conditions in Rule 2a–7 and are expected to continue to fulfill MMFs’ unique role. In the absence of the simplified method of accounting proposed in this document, current law would require shareholders to compute gain or loss on every redemption of shares in a floating-NAV MMF.

Stable share prices simplify the taxation of transactions in MMF shares because a shareholder does not realize gain or loss when a share is redeemed for an amount equal to its basis. Shareholders typically will realize gain or loss, however, on redemptions of floating-NAV MMF shares. Comments received by the SEC in response

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to the SEC MMF Reform Proposal expressed concern about tracking and reporting gains and losses from shares in floating-NAV MMFs. The commenters observed that the frequent purchase and redemption of MMF shares combined with relatively small changes in share values could result in tax compliance burdens that, in the opinion of these commenters, would be disproportionate to the amounts of gain or loss at issue.

Explanation of Provisions

1. Simplified Method of Accounting for Floating-NAV MMF Shares (NAV Method)

Section 446(b) provides that, if no method of accounting has been regularly used by the taxpayer, taxable income shall be computed under a method that, in the opinion of the Secretary, clearly reflects income. The term “method of accounting” includes a taxpayer’s overall method of accounting and the accounting treatment of any item.

§1.446-1(a)(1).

In response to concerns regarding the tax compliance burdens associated with frequent redemptions of shares in floating-NAV MMFs, these proposed regulations describe a permissible, simplified method of accounting for gain or loss on shares in a floating-NAV MMF (the net asset value method, or NAV method). The NAV method, in the opinion of the Commissioner of Internal Revenue, is a method of accounting that clearly reflects income from gain or loss on shares in floating-NAV MMFs. Under this method, gain or loss is based on the change in the aggregate value of the shares in the floating-NAV MMF during a computation period (which may be the taxpayer’s taxable

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year or certain shorter periods) and the net amount of the purchases and redemptions during the period. More specifically, the taxpayer's net gain or loss from shares in a floating-NAV MMF for a computation period generally equals the value of the taxpayer's shares in the MMF at the end of the period, minus the value of the taxpayer's shares in the MMF at the end of the prior period, minus the taxpayer's net investment in the MMF during the period. The NAV method does not change the tax treatment of, or broker reporting requirements for, dividends from floating-NAV MMFs.

The proposed method simplifies tax computations by basing them on the aggregate of all transactions in a period and on aggregate fair market values. Every floating-NAV MMF must compute these fair market values for non-tax purposes regardless of how—or even whether—the MMF's shareholders are taxed on transactions in the MMF shares. The NAV method takes into account changes in value of floating-NAV MMF shares without regard to realization.

Under the NAV method, the character of a shareholder's net gain or loss depends on the character of the underlying MMF shares in the shareholder's hands. If all of a taxpayer's floating-NAV MMF shares in an account would yield capital (or ordinary) gain or loss, then net gain or loss under the NAV method is also capital (or ordinary). When shareholders recognize a net capital gain or loss under the NAV method, the proposed regulations provide that this gain or loss is short term. This

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holding period convention is necessary because the aggregation that is part of the method makes normal holding period determinations impracticable.

Under the NAV method, any basis adjustment imposed under internal revenue law with respect to shares in floating-NAV MMFs will generally give rise to gain or loss in the year of the adjustment. For example, if the basis of shares in a floating-NAV MMF is reduced under section 108(b)(2)(E) as a result of a discharge of indebtedness or under section 301(c)(2) as a result of receipt of a distribution that, in whole or in part, is not a dividend, then the gain on the shares in the MMF would be increased (or the loss would be decreased) by the amount of the adjustment. Comments are requested on the appropriate treatment of these or any other basis adjustments that might be imposed under internal revenue law with respect to shares in floating-NAV MMFs.

Taxpayers may adopt the NAV method pursuant to rules under §1.446-1(e) by use of the NAV method in the Federal income tax return for the first taxable year in which the taxpayer holds shares in a floating-NAV MMF. See Rev. Rul. 90-38 (1990-1 CB 57). Once a taxpayer has adopted a method of accounting for gains and losses on shares in floating-NAV MMFs, any change from that method (including a change to or from the NAV method) is a change in method of accounting to which the provisions of section 446 and the accompanying regulations apply. The proposed regulations provide that the change is implemented on a cut-off basis.

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In addition to requiring some MMFs to become floating-NAV MMFs, the SEC MMF Reform Rules also provide that, in appropriate circumstances, MMFs may impose liquidity fees. When a liquidity fee is in place, the proceeds received by any shareholder that redeems shares are reduced by the liquidity fee even though the redeemed shares may be in an MMF that uses penny-rounding to price its shares (a stable-value MMF). Because the cost of each stable-value MMF share redeemed (generally \$1.00) will exceed the net amount of proceeds received for that share (\$1.00, minus the liquidity fee), these redemptions would produce recognized losses under standard tax accounting. If the acquisition of other shares causes a redemption to be a wash sale under section 1091, then under section 1091(d), the acquired shares will have a basis greater than \$1.00.

Because of the rarity of gains and losses on the shares in stable-value MMFs, both the MMFs themselves and their shareholders may lack the systems necessary to record the losses and to track the basis of any shares whose basis exceeds \$1.00. In these circumstances, if the NAV method were available to the stable-value MMF shareholders, use of that method would reduce the shareholders' tax compliance burden. Accordingly, comments are requested regarding whether the NAV method should be available to shareholders of a stable-value MMF that has imposed a liquidity fee.

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2. Information Reporting for Floating-NAV MMF Shares

Sections 6045, 6045A, and 6045B establish certain reporting requirements relating to securities. Section 1.6045-1(c)(3)(vi) provides an exception to the broker reporting requirement under section 6045 for shares in an MMF “that computes its current price per share for purposes of distributions, redemptions, and purchases so as to stabilize the price per share at a constant amount that approximates its issue price or the price at which it was originally sold to the public.” Sections 1.6045A-1(a)(1)(v) and 1.6045B-1(a)(5) cross-reference §1.6045-1(c)(3)(vi) to provide similar exceptions from the requirements of sections 6045A and 6045B, respectively. Comments received by the SEC in response to the SEC MMF Reform Proposal expressed concern that the existing exception would not apply to floating-NAV MMFs and suggested that requiring transaction-by-transaction information reporting would impose significant new costs on floating-NAV MMFs and intermediaries. The Treasury Department and the IRS believe that imposing broker reporting requirements on floating-NAV MMFs would result in administrative burdens that are not justified in light of the expected relative stability of floating-NAV MMF share prices. Therefore, the proposed regulations revise §1.6045-1(c)(3)(vi) to clarify that the exceptions under sections 6045, 6045A, and 6045B continue to apply to all MMFs, including floating-NAV MMFs.

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3. Wash Sale Rules

When the SEC MMF Reform Proposal was issued, commenters expressed concern about the difficulty of applying the wash sale rules of section 1091 to floating-NAV MMFs, especially the difficulty of tracking the basis under section 1091(d) of acquired shares. Use of the NAV method will eliminate those difficulties. Under the NAV method, net gain or loss is determined for each computation period, and no gain or loss is determined for any particular redemption of a taxpayer's shares in a floating-NAV MMF. Without a determination of loss, a particular redemption does not implicate the wash sale rules.

A shareholder of a floating-NAV MMF that does not use the NAV method, however, may experience frequent wash sales. For a shareholder with a substantial volume of transactions in floating-NAV MMF shares, tracking wash sales of MMF shares could present significant practical challenges. On July 29, 2013, the IRS published Notice 2013-48 (2013-31 IRB 120) in response to the SEC MMF Reform Proposal. The notice proposed a revenue procedure providing that the IRS would not treat a loss realized upon a redemption of a floating-NAV MMF share as subject to the wash sale rules if the amount of the loss was not more than one half of one percent of the taxpayer's basis in that share. The IRS received comments indicating that the proposed revenue procedure would not significantly reduce the tax compliance burdens associated with applying the wash sale rules to floating-NAV MMFs because

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shareholders would still have to track all wash sales to determine whether the amount of any particular wash sale exceeds the 0.5% *de minimis* test. The comments requested that floating-NAV MMFs be exempted entirely from the wash sale rules in section 1091.

Concurrently with these proposed regulations, the Treasury Department and the IRS are releasing a final revenue procedure providing that the wash sale rules will not be applied to redemptions of shares in floating-NAV MMFs. This revenue procedure will apply to redemptions of shares in floating-NAV MMFs on or after the effective date of the SEC MMF Reform Rules (expected to be 60 days after their publication in the Federal Register).

Proposed Effective/Applicability Dates

These regulations concerning the NAV method are proposed to apply to taxable years ending on or after the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations. Shareholders of floating-NAV MMFs, however, may rely on the rules in the regulations concerning the NAV method for taxable years ending on or after **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]** and beginning before the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations.

These regulations concerning information reporting are proposed to apply to calendar years beginning on or after the date of publication in the **Federal Register** of a

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Treasury decision adopting these proposed regulations as final regulations. Taxpayers and brokers (as defined in §1.6045-1(a)(1)) may rely upon the rules in the regulations concerning information reporting for calendar years beginning before the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comments on its impact on small business.

Comments and Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS as prescribed in this preamble under the “Addresses” heading. The Treasury Department and the IRS request

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comments on all aspects of the proposed rules. Comments are specifically requested on the appropriate treatment of basis adjustments that might be imposed under sections 108(b)(2)(E), 301(c)(2), or any other provision of internal revenue law with respect to shares in floating-NAV MMFs. Comments are also requested regarding whether the NAV method should be available to shareholders of a non-floating-NAV MMF that has imposed a liquidity fee under §270.2a-7(c)(2) of the SEC MMF Reform Rules. All comments will be available for public inspection and copying at www.regulations.gov or upon request.

A public hearing has been scheduled for November 19, 2014, at 10:00 a.m., in the IRS Auditorium, Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington, DC. Due to building security procedures, visitors must enter through the Constitution Avenue entrance. In addition, all visitors must present photo identification to enter the building. Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the “FOR FURTHER INFORMATION CONTACT” section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit written (signed original and eight (8) copies) or electronic comments and an outline of the topics to be discussed and the time to be devoted to each topic by **INSERT DATE 90 DAYS AFTER PUBLICATION**

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OF THIS DOCUMENT IN THE FEDERAL REGISTER]. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

Drafting Information

The principal author of the proposed regulations is Grace E. Cho, IRS Office of the Associate Chief Counsel (Financial Institutions and Products). However, other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1--INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding an entry in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.446-7 also issued under 26 U.S.C. 446. * * *

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Par. 2. Section 1.446-7 is added to read as follows:

§1.446-7 Net asset value method for certain money market fund shares.

(a) In general. This section provides a permissible method of accounting for gain or loss on shares in a floating-NAV MMF (the net asset value method, or NAV method).

(b) Definitions. For purposes of this section--

(1) Computation period. The computation period is the period that a taxpayer selects for computing gain and loss under the NAV method for a floating-NAV MMF. The computation period may be the taxpayer's taxable year or a shorter period, such as a month, or a number of months, weeks, or days, provided that--

(i) Computation periods must be of approximately equal duration (except for initial or final computation periods in a taxable year);

(ii) Every day during the taxable year must fall within one, and only one, computation period; and

(iii) Each computation period must contain days from only one taxable year.

(2) Ending value. The ending value of a taxpayer's shares in a floating-NAV MMF for a computation period is the aggregate fair market value of the taxpayer's shares at the end of that computation period.

(3) Floating-NAV MMF. A floating-NAV MMF is an MMF that distributes, redeems, and repurchases its shares at prices that are computed by rounding the MMF's current net asset value per share to a minimum of the fourth decimal place in the

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case of an MMF with a share price at or about \$1.0000 or an equivalent or more precise level of accuracy for an MMF with a different share price.

(4) Money market fund (MMF). A money market fund (MMF) is a regulated investment company that is permitted to hold itself out to investors as a money market fund under Rule 2a-7 under the Investment Company Act of 1940.

(5) Net investment--(i) In general. The net investment in an MMF for a computation period may be a positive amount, a negative amount, or zero, and is equal to--

(A) The aggregate cost of shares in the MMF purchased during the computation period (including purchases through reinvestment of dividends); minus

(B) The aggregate amount received during the computation period in redemption of (or otherwise in exchange for) shares in the MMF if the transaction is one in which gain or loss would be recognized.

(ii) Adjustments--(A) Dispositions in which gain or loss is not recognized. If, during the computation period, any shares in an MMF are disposed of in transactions in which gain or loss would not be recognized, the net investment in the MMF for the computation period is decreased by the fair market value of each such share at the time of its disposition.

(B) Acquisitions other than by purchase. If, during the computation period, any shares in an MMF are acquired other than by purchase, the net investment in the MMF

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for the computation period is increased by the adjusted basis (for purposes of determining loss) of each such share immediately after its acquisition. If the adjusted basis referred to in the preceding sentence would be determined by reference to the basis of one or more shares in an MMF that are being disposed of by the taxpayer in a transaction that is governed by paragraph (b)(5)(ii)(A) of this section, then the basis of each such disposed share is treated as being the fair market value of that share at the time of its disposition.

(6) Starting basis. The starting basis of a taxpayer's shares in a floating-NAV MMF for a computation period is--

(i) Except as provided in paragraph (b)(6)(ii) of this section, the ending value of the taxpayer's shares for the immediately preceding computation period.

(ii) For the first computation period in a taxable year, if the taxpayer did not use the NAV method for the immediately preceding taxable year, the aggregate adjusted basis of the taxpayer's shares in the floating-NAV MMF at the end of the immediately preceding taxable year.

(c) NAV method--(1) Scope. A taxpayer may use the NAV method described in this section to determine the gain or loss for the taxable year on the taxpayer's shares in each MMF that, at any time during the taxable year, was a floating-NAV MMF at a time when the taxpayer owned shares in the MMF. If a taxpayer uses the NAV method for shares in any floating-NAV MMF for a taxable year, the taxpayer must use the NAV

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method for that taxable year for the shares in every floating-NAV MMF in which the taxpayer holds shares. See paragraph (c)(6) of this section for rules applicable to accounting method changes.

(2) Net gain or loss for a taxable year--(i) Determination for each computation period. Subject to any adjustment under paragraph (c)(2)(ii) of this section, the net gain or loss for each computation period on the shares in a floating-NAV MMF to which the NAV method applies equals the ending value, minus the starting basis, minus the net investment in the floating-NAV MMF for the computation period. If the computation produces a result that is greater than zero, the taxpayer has a gain for the computation period with respect to shares in the MMF; if the computation produces a result that is less than zero, the taxpayer has a loss for the computation period on shares in the MMF; and if the computation produces a result that is equal to zero, the taxpayer has no gain or loss for the computation period on shares in the MMF.

(ii) Adjustment of gain or loss to reflect any basis adjustments. If, during a computation period, there is any downward (or upward) adjustment to the taxpayer's basis in the shares in the floating-NAV MMF under any provision of internal revenue law, then the net gain or loss for the computation period on shares in the floating-NAV MMF determined under paragraph (c)(2)(i) of this section is increased (or decreased) by the amount of the adjustment.

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(iii) Determination of net gain or loss for each taxable year. The taxpayer's net gain or loss for a taxable year on shares in a floating-NAV MMF is the sum of the net gains or losses on shares in the floating-NAV MMF for the computation period (or computation periods) that comprise the taxable year.

(3) Character--(i) In general. If a taxpayer uses the NAV method for shares in a floating-NAV MMF and each of those shares otherwise would give rise to capital gain or loss if sold or exchanged in a computation period, then the gain or loss from the shares in the MMF is treated as capital. If a taxpayer uses the NAV method for shares in a floating-NAV MMF and each of those shares otherwise would give rise to ordinary gain or loss if sold or exchanged in a computation period, then the gain or loss from the shares in the MMF is treated as ordinary.

(ii) Mixed character. If a taxpayer uses the NAV method for shares in a floating-NAV MMF and those shares would otherwise give rise to both ordinary gain or loss and capital gain or loss if sold or exchanged in a computation period, then all gain or loss from the shares in this MMF is treated as capital gain or loss.

(iii) Multiple accounts. See paragraph (c)(5) of this section for the treatment of multiple accounts.

(4) Holding period. Capital gains and losses determined under the NAV method are treated as short-term capital gains and losses.

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(5) More than one account. If a taxpayer holds shares in a floating-NAV MMF through more than one brokerage account, the taxpayer must treat its holdings in each account as a separate floating-NAV MMF for purposes of the NAV method and must separately apply the method to each such account.

(6) Accounting method changes. A change to or from the NAV method is a change in method of accounting to which the provisions of section 446 and the accompanying regulations apply. A taxpayer seeking to change to or from the NAV method must secure the consent of the Commissioner in accordance with §1.446-1(e) and follow the administrative procedures issued under §1.446-1(e)(3)(ii) for obtaining the Commissioner's consent to change the taxpayer's accounting method. Any such change will be made on a cut-off basis. Because there will be no duplication or omission of amounts as a result of such a change to or from the NAV method, no adjustment under section 481(a) is required or permitted.

(d) Example. The provisions of this section may be illustrated by the following example:

Example. (i) Fund is an MMF. Shareholder is a person whose taxable year is the calendar year. On January 1 of Year 1, Shareholder owns 5,000,000 shares in Fund in a single account with an adjusted basis of \$5,000,000.00. On that date, Fund prices its shares using penny rounding under Rule 2a-7(c) under the Investment Company Act of 1940. On February 1 of Year 1, Fund becomes a floating-NAV MMF. During Year 1, Shareholder receives \$32,158.23 in taxable dividends from Fund and makes 120 purchases of additional shares in Fund (including purchases through the reinvestment of those dividends) totaling \$1,253,256.37 and 28 redemptions totaling \$1,124,591.71. The fair market value of Shareholder's shares in Fund at the end of Year 1 is \$5,129,750.00. All of Shareholder's shares in Fund are held as capital assets.

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There is no adjustment to the basis in Shareholder's shares in Fund under any provision of internal revenue law during Year 1.

(ii) Shareholder adopts the NAV method with its taxable year as the computation period. Shareholder's net investment in Fund for Year 1 equals \$128,664.66 (the \$1,253,256.37 in purchases, minus the \$1,124,591.71 in redemptions). Shareholder's gain therefore is \$1,085.34, which is the ending value of Shareholder's shares (\$5,129,750.00), minus the starting basis of Shareholder's shares (\$5,000,000.00), minus Shareholder's net investment in the fund for the taxable year (\$128,664.66). The gain of \$1,085.34 is treated as short-term capital gain. Shareholder's starting basis for Year 2 is \$5,129,750.00. Shareholder must also include the \$32,158.23 in dividends in its income for Year 1 in the same manner as if Shareholder did not use the NAV method.

(iii) If Shareholder had instead adopted the calendar month as its computation period, it would have used the NAV method for January of Year 1, even though Fund was not yet a floating-NAV MMF.

(e) Effective/applicability date. This section applies to taxable years ending on or after the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations. Taxpayers may rely on this section for taxable years ending on or after **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]** and beginning before the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations.

Par. 3. Section 1.6045-1 is amended by revising paragraph (c)(3)(vi) to read as follows:

§1.6045-1 Returns of information of brokers and barter exchanges.

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(c) * * *

(3) * * *

(vi) Money market funds--(A) In general. No return of information is required with respect to a sale of shares in a regulated investment company that is permitted to hold itself out to investors as a money market fund under Rule 2a–7 under the Investment Company Act of 1940.

(B) Effective/applicability date. Paragraph (c)(3)(vi)(A) of this section applies to sales of shares in calendar years beginning on or after the date of publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations. Taxpayers and brokers, however, may rely on paragraph (c)(3)(vi)(A) of this section for sales of shares in calendar years beginning before the date of

publication in the **Federal Register** of a Treasury decision adopting these proposed regulations as final regulations.

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Deputy Commissioner for Services and Enforcement.