

Mutual fund tax services

Bringing insights to audit
and non-audit clients

Tax services from the leader in the business

With the increase of complex and evolving tax laws, a proliferation of new and exotic financial instruments, stringent deadlines and a dearth of experienced mutual fund tax professionals, many regulated investment companies (RICs) are, to varying degrees, turning to professional firms for assistance.

Our Mutual Fund Tax practice is at the forefront of this trend and assists mutual fund complexes to improve the efficiency and effectiveness of their tax function. Because of the bench strength of our mutual fund tax professionals, we are able to provide varying levels of mutual fund tax services, from preparation of tax returns to a full range of services listed later in this brochure. Regardless of the nature and scope of such services, our mutual fund tax professionals can assist you to make your tax function more efficient cost effective and, at the same time, help with planning and modeling ideas, and to improve quality.

We provide comprehensive mutual fund tax services to both audit and non-audit clients using our model specifically developed for such services. Because we have not only tax experience but also mutual fund tax experience, our professionals understand the tax-related challenges that asset managers face today. Through either a full outsourcing or teaming relationship, our seasoned professionals work to help you reduce tax-related costs and improve quality, models and overall service.

Commitment to innovation

Ernst & Young LLP's commitment to innovation is exemplified by our tax technology initiatives. In order to address the ever-changing tax and business landscape, we understand our clients' need for real-time tax data analytics. To this end, we have dedicated significant resources to the development of RIC-specific tax technology tools that provide:

- ▶ End-to-end integration of source data
- ▶ Security analysis
- ▶ Taxable income calculations
- ▶ Preparation of tax returns

If you are interested in seeing a demo of our leading-class technology and data analytic solutions, please contact a member of our mutual fund tax executive team.

Customized tax services

Tailored to address the specific needs of fund complexes of all sizes, flexibility enables us to attend to all, or a portion, of your tax needs:

All tax services

We offer a complete range of tax services, including, but not limited to, tax return preparation, excise tax distributions, interim tax qualification testing, assistance with the year-end tax package provided to your auditors and shareholder reporting.

Teaming

We work with your internal staff during peak periods or specific events, continuously transferring knowledge and enhancing the staff's ability to serve your organization. This collaboration frees your people from time-consuming compliance activities and enables them to focus on analysis and planning to support business strategies.

Our approach

We employ the following steps to determine the services that will drive to your overall corporate strategy:

- ▶ Identify opportunities to reduce cost and cycle time for tax compliance and tax accounting processes through appropriate transfer of selected tax functions to us
- ▶ Develop an approach for redeploying existing resources from compliance to more strategic activities, such as tax planning, research and tax oversight function
- ▶ Design a detailed functional and timeline-oriented plan that delivers strategic fit and the cost benefits you require

Our services

Recurring services

Preparation/review of excise tax distributions

In addition to assisting with these computations in November and December, we can help you prepare estimates earlier in the year to enhance communications with shareholders.

Preparation/review of 1099 designations and related shareholder mailings

We can assist with 1099-related components of distributions made during the year, such as qualified dividend income, capital gain distributions, return of capital distributions, foreign tax credits and foreign source income. We can also assist with year-end shareholder supplemental information.

Our wide range of other non-recurring services including:

- ▶ Assistance with fund mergers and liquidations, including computations of final distributions and limitations on the use of capital loss carryforwards
- ▶ Assistance with investments in real estate investment trusts, including tax character of these distributions
- ▶ Drafting of letter ruling requests to the Internal Revenue Service (IRS), including relief requests
- ▶ Representation before the IRS in case of an audit
- ▶ Preparation of detailed policy and procedures manual for investments in derivatives, emerging market debt and so forth
- ▶ Customized training courses covering tax, accounting and regulatory aspects of mutual funds
- ▶ Analysis of corporate actions
- ▶ Analysis of complex securities that may have a direct impact on distributions and other compliance areas
- ▶ Analysis of new products

Tax-related work associated with year-end financial statements¹

This includes, but is not limited to, the following:

- ▶ Preparation/review of Internal Revenue Code Section 855 (spillover dividend) computations
- ▶ Preparation/review of tax-related footnote and other disclosures (such as capital loss carryforwards and 60-day notices)
- ▶ Preparation of SOP 93-2 (ROC-SOP) disclosures
- ▶ Assistance with ASC 740, including identification of tax positions and related assessment and documentation
- ▶ Assistance with other tax-related issues associated with the year-end work

¹Please note that our involvement in year-end work may be limited if the fund is an Ernst & Young LLP audit client.

EY member firms provide services to **all** of the top **10** mutual fund companies and to **88%** of the top **50**.

Year-round assistance with the tax compliance function

This includes, but is not limited to, the following:

- ▶ Periodic tax reviews of asset diversification (including special diversification requirements for segregated asset accounts); 90% gross income test (performed monthly, quarterly or as desired)
- ▶ Periodic reviews of distribution amounts and determination of their character (e.g., ordinary, long-term capital, return of capital)
- ▶ Review of distributions by class in a multi-class fund to determine if they are in accordance with tax rules
- ▶ Periodic review of the portfolio to identify passive foreign investment companies using our proprietary Passive Foreign Investment Company (PFIC) Analyzer[®]
- ▶ Periodic review of portfolio to identify foreign tax issues, complex financial instruments, products and positions (e.g., straddles, emerging market debt) to determine if these are being correctly recorded for tax purposes
- ▶ Preparation of tax returns and related extensions
- ▶ Computation of special items for state and local tax purposes, such as issuer's allocation percentages

Assistance with non-shareholder information reporting

- ▶ We can prepare 1099-MISCs for directors, 1042/1042s for non-US directors and 1099s for vendors and service providers.

Tax-equivalent yield computation

- ▶ We can perform federal, state and local tax-equivalent-yield computations involving municipal bond funds as well as funds investing in US Government obligations.

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