By Electronic Delivery

March 23, 2020

Charles Rettig
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

David Kautter
Assistant Secretary (Tax Policy)
US Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: COVID-19: IRS Guidance Urgently Needed for RICs

Dear Mr. Rettig and Mr. Kautter:

The Investment Company Institute\(^1\) recommends immediate administrative relief for regulated investment companies (RICs) comparable to that provided to other taxpayers by IRS Notice 2020-18. This well-intentioned Notice provides little, if any, relief to RICs that face several unique COVID-19-related obstacles to timely tax return filings.

The most immediate way to address the RICs’ filing obstacles would be to extend the tax return filing deadline to July 15 for any return due, including on extension, between April 15 and June 15. Relief also could be provided by permitting IRS Forms 1120-RIC to be signed and filed electronically. The requirement that these returns, which can be hundreds of pages long, be signed physically and filed on paper is particularly problematic in the COVID-19-related “work from home” environment. Other clarifying guidance also is requested.

Notice 2020-18, Perhaps Inadvertently, Provides Little if Any Relief to Potentially Benefiting RICs

The filing delay provided by the Notice “is available solely with respect to . . . returns due on April 15, 2020, in respect of an Affected Taxpayer’s 2019 taxable year” (emphasis added).” While this relief is of immense value to individual taxpayers and some other filers, its applicability to RICs that received automatic six-month filing extensions for their 2018 IRS Forms 1120-RIC is, at best, uncertain. The

\(^1\) The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s members manage total assets of US$25.2 trillion in the United States, serving more than 100 million US shareholders, and US$7.7 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC.
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specific returns of concern originally were due on October 15, November 15, or December 15, 2019; these returns now are due on April 15, May 15, or June 15, 2020.²

The April 15 due date requirement, perhaps inadvertently, on its face precludes relief for those IRS Form 1120-RICs due on May 15 and June 15. Our requested filing extension for any return due, including on extension, between April 15 and June 15 would address the filing issues for these RICs.

Whether the relief applies to RICs with tax returns due, on extension, on April 15 depends on whether a 2018 IRS Form 1120-RIC for a taxable year that began in 2018 and ended in 2019 is for the “2019 taxable year.” This potential ambiguity could be addressed most easily by confirming that returns for any fiscal year ending in 2019 are for the 2019 taxable year. Relief for these RICs also would be available by adopting our requested filing deadline extension for any return due, including on extension, between April 15 and June 15.

Unique Issues Creating RICs’ Need for Relief

The COVID-19 pandemic, while creating substantial barriers to timely tax filings by all taxpayers, is creating unique filing challenges for RICs. While RICs typically do not owe income tax, they must file their tax returns on time for important elections³ to have effect. The filing barriers arise because (1) RICs typically use accounting firms to prepare their complex tax returns, (2) RIC tax returns must be filed on paper, and (3) the returns must be signed physically by an officer of the RIC.

The relief we request would provide significant relief to asset managers, who often manage hundreds of RICs, each of which must file its own IRS Form 1120-RIC. RIC tax returns, because of schedules, statements, and other attachments, can be hundreds of pages long.

Asset managers routinely utilize an accounting firm to prepare the return for review by the asset manager and signature by one of the RIC’s officers. In a “normal” environment, the accounting firm will provide a printed copy of the tax return to the officer of the RIC for physical signature.

In today’s COVID-19 environment, however, a “new normal” exists. Importantly, we understand that accounting firms may not be able to commit to printing the returns for their clients as access to their offices may be restricted or prohibited. While, to our knowledge, no accounting firm has advised its clients that it may not be able to complete all tax returns on time, this possibility cannot be discounted.

² These RICs are filing the 2018 IRS Form 1120-RIC because it is to be used for “calendar year 2018 or tax year beginning _____, 2018 and ending _____, 20__.” The 2019 IRS Form 1120-RIC, in contrast, is to be used for “calendar year 2019 or tax year beginning _____, 2019 and ending _____, 20__.”
³ These elections relate to (1) matters critical to a RIC qualifying as such and receiving the tax treatment provided by Subchapter M of the Internal Revenue Code, and (2) important matters relating to the tax treatment of its portfolio investments. RIC investors would be harmed irreparably if these elections, because of COVID-19, cannot be made on timely filed returns.
One other challenge to timely filing the IRS Form 1120-RIC is that, if the RIC’s officer receives the return electronically, and also lacks access to his or her office, the officer must print the returns. These individuals may not have access to home printers capable of printing up to hundreds of pages for each return (of which there may be dozens or even hundreds due on April 15, May 15, or June 15, 2020).

The final challenge involves delivering the returns to the post office. If an individual lives in an area where travel is prohibited, these returns cannot be filed. Even if travel is permitted, substantial burdens may be placed on any officer required to deliver hundreds or thousands of pages of tax returns to the post office.

**Recommendations for Relief**

First, the IRS should announce promptly that Notice 2020-18’s tax return filing deadline extension applies to any return due, including on extension, between April 15 and June 15.

Second, and immediately, the IRS should confirm that returns for any fiscal year ending in 2019 are for the “2019 taxable year.” This confirmation would alleviate the immediate reporting ambiguity for RICs with a due date, on extension, of April 15, 2020. All such RICs, which we anticipate numbering over one thousand, clearly would be covered by the Notice.

Third, the IRS should permit IRS Forms 1120-RIC to be signed electronically. This relief would provide RIC officers with the same signing options—by rubber stamp, mechanical device, or a computer software program—that are available to a paid preparer.

Finally, the IRS should permit IRS Forms 1120-RIC to be filed electronically. A secure email address to submit PDF copies of the returns, for example, would provide significant administrative relief. This last recommendation would have both short-term and long-term benefits as no tax policy rationale can support requiring a $25 trillion industry to file tax returns on paper.

* * *

The requested relief is essential to protect fund investors from the harm that they otherwise could suffer during the COVID-19 pandemic. If we can provide you with any additional information regarding these issues, please contact Keith Lawson (at 202-326-5832 or lawson@ici.org) or Katie Sunderland (at 202-326-5826 or katie.sunderland@ici.org).

Kind regards,

[Signature]
Keith Lawson
Deputy General Counsel, Tax Law

[Signature]
Katie Sunderland
Assistant General Counsel, Tax Law

cc: Mike Desmond
    Bill Paul
    Mike Novey