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KPMG: Tax Issues for Financial Services Industry Addressed

By Rob Starr, staff reporter

Several tax developments stand out as ones that business needs to pay attention to if they are to successfully manage growth, according to tax specialists at KPMG LLP as financial services leaders re-examine their businesses in light of regulatory and policy changes.

Managing these developments will be even more challenging for finance and tax departments as they will simultaneously need to work seamlessly with other areas of their businesses to respond to the tax ramifications arising from the Dodd-Frank Wall Street Reform and Consumer Protection Act. The belief from KPMG is the Foreign Account Tax Compliance Act (FATCA), cost basis reporting, and the Regulated Investment Company Modernization Act of 2010 will both create significant compliance, reporting and monitoring risks and consume resources as companies continue to move toward economic recovery.

Scott Marcello, national leader of KPMG LLP's Financial Services practice believes new tax changes are on the horizon.

"We believe that maintaining management attention on the tax compliance and operations-related aspects of FATCA, cost basis reporting and the Regulated Investment Company Modernization Act -- while also monitoring and responding to the tax ramifications of ongoing regulatory change, such as the Dodd-Frank Act -- will be challenging and vital to achieving business growth and success."

U.S. financial institutions and the foreign entities to which they make certain U.S. source payments will face new tax compliance challenges under FATCA. The effective date for this new regime is January 1, 2013. According to KPMG Washington National Tax principal Laurie Hatten-Boyd, this new regime broadens the definition of "foreign financial institution" far beyond the traditional and includes insurance companies that issue cash value products, hedge funds, private equity funds, and other collective investment vehicles.

The Regulated Investment Company Modernization Act of 2010 changed various tax rules applicable to regulated investment companies (RICs), which include mutual funds, business development companies, and other comparable investments. Significant changes were made related to the treatment of RIC capital loss carryovers, RIC failures to satisfy the gross income and asset diversification requirements, the tax treatment of periodic RIC distributions, as well as rules governing year-end excise tax.