

305(c) Announcements

DTCC'S 305(c) TAX EVENT ANNOUNCEMENTS PROVIDES INFORMATION-ONLY ANNOUNCEMENTS ON DEEMED DISTRIBUTIONS UNDER INTERNAL REVENUE CODE 305(c).

OVERVIEW

The 305(c) Tax Event Announcement helps firms meet their obligations for tax withholding and reporting under section 305(c) of the Internal Revenue Code ("Section 305(c)").

Section 305(c) considers that holders of convertible securities may be deemed to have received a dividend as a result of a corporate action on the underlying common stock. Issuers of convertible securities are required to file IRS Form 8937 if a conversion rate adjustment (CRA) results in a distribution under Section 305(c). In addition to cost basis adjustments, financial institutions may have requirements to withhold tax on the deemed distribution and to perform year-end tax reporting for the deemed distribution to holders.

DTC's Corporate Actions Processing Service for Distributions was leveraged to allow these events to flow seamlessly into clients' tax processing engines, without the need to review Form 8937s. As DTC receives Form 8937s from issuers, DTC will provide a new information-only announcement with the timing and the amount of the deemed dividend.

BENEFITS

By getting the Form 8937 or the 305(c) deemed dividend directly from issuers, the service ensures that holders of convertible securities are treated consistently and can verify the amounts to the source document (i.e. Form 8937).

Additionally, by working directly with the issuer to source this information, there may be instances in which a CRA doesn't trigger a deemed dividend under 305(c), such as if an issuer doesn't have enough Earnings and Profit (E&P) or based on other facts the issuer may provide guidance that there is no deemed dividend occurring on CRAs. Other benefits are:

- Position capture for balancing position to DTC records
- Announcements and comments included to explain exceptions to 305(c) deemed dividends
- Source data (Form 8937, conversion rate notices) available in LENS – see below for more detail about LENS
- Increased operational efficiency and improved traceability
- Reduced administrative time

- By sourcing data directly from issuers, all holders of the convertible security are treated consistently

- Eliminates the need for firms to source, review and interpret Form 8937s

- Announcement provides relevant data (i.e. date of deemed dividend and amount of dividend) in fielded format

WHO CAN USE THE SERVICE

DTC clients receive these announcements via ISO messaging, and can view and download the announcements in CA Web.

HOW THE SERVICE WORKS

In the most common scenario, an issuer pays a dividend on their common stock which triggers a CRA on the issuer's convertible notes. If this CRA constitutes a deemed dividend then the issuer is required to file IRS Form 8937 and state the amount of the deemed dividend.

Issuers or their trustees are generally required to provide DTC with notices of conversion rate adjustments. Upon the receipt of a conversion rate adjustment a 305(c) Announcement is generated with a rate of zero. This Announcement is a preliminary announcement to notify clients that DTC expects that a 305(c) deemed dividend has occurred and that we are working with the issuer to get the amount of the 305(c) deemed dividend.

The conversion rate adjustment is often effective as of the open of business on the ex-date tied to the common stock dividend. This is generally the "date of action" on the IRS Form 8937, and is used as the deemed "Payable Date" on the 305(c) Announcement. Since the deemed distribution is effective as of the open of business, we set the deemed "Record Date" to the day prior so that we capture position as of the end of the prior day.

The next step is the receipt of the Form 8937, which is posted to LENS, and the 305(c) Announcement is updated with the amount of the 305(c) deemed dividend.

RELATED PRODUCTS AND SERVICES

DTCC's Legal Notice System (LENS):

- IRS Form 8937s are available in LENS within the Cost Basis section of the library.
- LENS users can search notices by CUSIP, keyword, notice type or document number, and can receive email alerts based off of a CUSIP interest list or by notice type (e.g. Cost Basis). For access to LENS, please contact your firm's Super Access Coordinator.
- For more information regarding the LENS service, please visit www.dtcc.com/lens.

Corporate Actions (CA) Web:

- DTCC's CA Web helps users identify business-critical corporate action announcements in near-real time for 1.3 Million active security issues held through its feature-rich, browser-based application.
- CA Web is delivered through the user's web browser. Users can subscribe to announcements on any or all event types — Distributions, Reorganizations and Redemptions

FOR MORE INFORMATION

To request additional information, please click [Here](#)

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