

Tax relief for floating-NAV money market funds

As of October 2016, institutional prime and tax-exempt funds began transacting at a floating net asset value (NAV) rather than at a stable \$1.00 NAV. As a result of this new U.S. Securities and Exchange Commission (SEC) rule, each shareholder redemption in a floating-NAV money market fund (MMF) may incur a gain or loss. Because shareholders tend to make a large volume of purchases and redemptions into and out of these funds to meet their liquidity needs, transactions could be onerous to track. And though price changes likely would be small, absent any regulatory relief, they would require detailed cost accounting.

To reduce the burden of tax compliance, the U.S. Treasury and the IRS issued final regulations that provide a simplified method of tax accounting for floating-NAV money market funds. These regulations apply to institutional money market funds, both prime and tax exempt. Government and retail money market funds are not affected because they continue to transact at a stable \$1.00 NAV.

An overview of the IRS regulations is provided below. This overview is for informational purposes only and should not be construed as tax advice; shareholders should consult their tax advisor about their specific situation.

Simplified method of accounting for floating-NAV MMF shares (NAV method)

Under the IRS regulations, simplified accounting, known as the NAV method, allows shareholders in floating-NAV money market funds to measure net gains and losses rather than calculate transaction-by-transaction gains and losses.

The NAV method works as follows:

1. A shareholder chooses a computational period—such as annually, quarterly, or monthly—and aggregates the net gains and losses over this period.
2. The calculation for the net gain or loss generally equals the value of an investor's shares in the floating-NAV money market fund at the end of the computational period, minus the value of the shares in the money market fund at the end of the prior period, minus the net investment in the fund during the period.

3. The NAV method does not change the tax treatment of, or broker reporting requirements for, dividends paid by floating-NAV money market funds.
4. The gain or loss is treated as a short-term gain or loss.
5. The NAV method is considered an accounting method by the IRS. As such, it must be applied to all floating-NAV money market shares. Shareholders must obtain IRS approval to stop using the method.

Result

Shareholders in a floating-NAV money market fund are not required to track gains and losses on individual transactions.

Wash sale rules

Because gains and losses are aggregated over a computational period, floating-NAV money market funds are exempt from the wash sale rule stating that a taxpayer may not recognize the loss on the sale of a security if he/she acquires a substantially identical security within 30 days before or after the sale.

Result

A shareholder in a floating-NAV money market fund is not affected by wash sale rules.

Information reporting for floating-NAV MMF shares

Floating-NAV money market funds are allowed the same waivers of gross-proceeds reporting, basis reporting, and holding-period reporting rules that apply to stable-value NAV money market funds. Information that would otherwise be included on Form 1099-B: Proceeds from Broker and Barter Exchange Transactions is not required.

Result

Shareholders do not receive tax Form 1099-B.

Retain classification as cash equivalents

The SEC has stated that the adoption of a floating NAV for money market funds does not, under normal circumstances, preclude shareholders from classifying their investment in money market funds as cash equivalents for purposes of U.S. generally accepted accounting principles.

A comparison of tax and accounting treatments across investment types

	Bank deposits	Stable-value money market funds (gov't, Treasury, and retail)	Floating-NAV money market funds (institutional prime and tax-exempt)	Mutual funds	Separately managed accounts
Reporting gains and losses	Does not apply	Does not apply under normal circumstances due to stable \$1.00 NAV	May aggregate gains and losses over a computational period	Must calculate gains and losses for each transaction	Must calculate gains and losses for each transaction
Wash sale rule	Does not apply	Does not apply under normal circumstances due to stable \$1.00 NAV	Exempt from wash sale rule	Wash sale rule applies A loss must be deferred if the same share is acquired 30 days before or after the sale	Wash sale rule applies A loss must be deferred if the same share is acquired 30 days before or after the sale
Information reporting from sale of shares	Exempt from Form 1099-B	Exempt from Form 1099-B	Exempt from Form 1099-B	Form 1099-B required	Form 1099-B required
Cash equivalent	Yes	Yes	Yes	No	No

Appendix—overview of floating-NAV accounting method

Below is an example from the IRS of a permissible method of accounting for a gain or loss on shares in a floating-NAV money market fund, shown in a format used in Wells Fargo client account year-end statements that contain information such as beginning adjusted basis, purchases,

redemptions, dividends received, and ending value. Although the format may change, we expect our year-end client-statement summaries will continue to contain this information, helping clients and their accountants access data that is necessary for tax reporting.

Year-End Account Summary

January 1, 2016 through December 31, 2016

CHANGES IN ACCOUNT VALUE

Beginning Balance (1-1-16)	\$5,000,000.00	1
Deposits	1,221,098.14	
Withdrawals	-1,124,591.71	2
Total Income	32,158.23	
Change in Value	1,085.34	3
Ending Balance (12-31-16)	\$5,129,750.00	4

INCOME SUMMARY

	Year-to-Date	
Dividends		
Taxable	\$32,158.23	5
Tax-Exempt/Deferred	0.00	
Capital Gains (paid by holdings)		
Short-Term	0.00	
Long-Term	0.00	
Total Income	\$32,158.23	

Source: IRS REG-107012-14

- 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 money market fund.
- 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.
- 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.
- 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. There is no adjustment to the basis in shareholder's shares in fund under any provision of internal revenue law during year 1.
- 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.

For more information

Institutional Sales Desk: 1-888-253-6584

Website: wellsfargofunds.com

(Click "Institutional Cash Management")

For floating NAV money market funds: You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

For retail money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

For government money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit wellsfargofunds.com. Read it carefully before investing.

For municipal income funds: A portion of the fund's income may be subject to federal, state, and/or local income taxes or the Alternative Minimum Tax (AMT). Any capital gains distributions may be taxable. For government funds: The U.S. government guarantee applies to certain underlying securities and not to shares of the fund. Any tax or legal information in this document is merely a summary of our understanding and interpretations of some of the current income tax regulations and is not exhaustive. Investors should consult their tax advisor or legal counsel for advice and information concerning their particular situation. Wells Fargo Funds Management, LLC; Wells Fargo Funds Distributor, LLC; or any of their representatives may not give legal or tax advice.

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