

MEMO# 20941

March 12, 2007

Draft Submission to IRS Regarding Bifurcation, Post-October Short-term Losses, and Other Related Issues

[20941]

March 12, 2007

TO: TAX COMMITTEE No. 7-07 RE: DRAFT SUBMISSION TO IRS REGARDING BIFURCATION, POST-OCTOBER SHORT-TERM LOSSES, AND OTHER RELATED ISSUES

Attached for your review is a draft Institute submission to the Internal Revenue Service regarding bifurcation, post-October short-term losses, and related issues. This submission is a draft notice providing guidance that regulated investment companies (“RICs”) may rely upon until the IRS issues regulations. The guidance in the draft notice adopts recommendations made by the Institute in prior submissions to the IRS and Treasury Department. [\[1\]](#)

Specifically, the draft submission provides that:

- Bifurcation is required only if a RIC has a post-October loss in some category.
- Bifurcation is permissible for both designation and taxable income purposes.
- For purposes of determining whether a RIC has a net capital gain or net short-term capital gain for the pre-November period, capital loss carryovers are deemed to arise on the first day of the taxable year to which they are carried.
- RICs may defer for taxable income purposes post-October losses attributable to stock in passive foreign investment companies (PFICs).
- Ordinary losses falling in one calendar year will not reduce the earnings and profits of a RIC created by ordinary income or net short-term capital gain that arises in the

same taxable year but in a different calendar year.

- RICs exempt from section 4982 under section 4982(f) may make the election under section 4982(e)(4), thereby permitting such RICs to avoid application of the post-October loss rules of section 852 and the bifurcation adjustment.
- Regulations similar to those in Treas. Reg. § 1.852-11 with respect to post-October net capital losses and net long-term capital losses will be issued under section 871(k)(2)(D) and will apply to any net short-term capital loss attributable to a RIC's post-October period.

Please provide any comments to Karen Gibian (202/371-5432 or kgibian@ici.org) by 12:00 p.m. EDT on Monday, March 19.

Karen Lau Gibian
Assistant Counsel

[Attachment](#)

endnotes

[\[1\]](#) See Institute [Memorandum \(20097\) to Tax Members No. 22.-06, dated June 9, 2006.](#)

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.