MEMO# 21619

September 24, 2007

Institute Letter to Finance and Ways and Means Committees Urges 2007 Enactment of Flow-through Permanence Legislation

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TO: FEDERAL LEGISLATION MEMBERS No. 6-07
TAX MEMBERS No. 41-07
OPERATIONS MEMBERS No. 19-07
SMALL FUNDS MEMBERS No. 89-07
BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 36-07
BROKER/DEALER ADVISORY COMMITTEE No. 59-07
TRANSFER AGENT ADVISORY COMMITTEE No. 65-07 RE: INSTITUTE LETTER TO FINANCE AND WAYS AND MEANS COMMITTEES URGES 2007 ENACTMENT OF FLOW-THROUGH PERMANENCE LEGISLATION

Institute President Paul Schott Stevens sent the attached letters to members of the Senate Finance Committee and the House of Representatives Ways and Means Committee urging enactment this year of legislation making Code section 871(k) permanent. Section 871(k), enacted by the American Jobs Creation Act of 2004 ("AJCA"), permits certain U.S. mutual fund distributions of interest income and short-term gains to retain their character as exempt from U.S. withholding tax when paid to foreign shareholders. This flow-through treatment is beneficial because interest and short-term gains received by foreign shareholders generally are exempt from U.S. withholding tax, while dividends are taxable.

Absent a legislative extension, AJCA's flow-through provision will expire after 2007. The Institute's letter urges that permanence legislation be enacted this year to enhance the global competitiveness of U.S. mutual funds and provide certainty to investors and mutual funds that have not yet incurred the costs of implementing the provision.

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Attachment