

**MEMO# 2504**

January 30, 1991

# **INSTITUTE SUBMISSIONS ON IRS FORM 1116, COMPUTATION OF FOREIGN TAX CREDIT**

January 30, 1991 TO: TAX COMMITTEE NO. 2-91 RE: INSTITUTE SUBMISSIONS ON IRS FORM 1116, COMPUTATION OF FOREIGN TAX CREDIT

Attached are two letters submitted by the Institute regarding proposals to simplify the reporting of foreign tax credits by shareholders in regulated investment companies ("RICs"). In the first letter, to the Office of Management and Budget and the Internal Revenue Service, the Institute proposes that RIC shareholders whose foreign tax credits are derived solely from their RIC investments be allowed to aggregate their reporting of foreign tax credits and provide all information on a total investment basis. Currently, the IRS Form for computing and reporting foreign tax credits (Form 1116) requires that foreign tax credits be reported separately for each country in which foreign taxes are paid. Separate reporting for income derived from and taxes paid to each country can be very burdensome. The example in the letter illustrates that filling out the Form is extremely complex when the RIC invests in more than one country. The second letter is to several Internal Revenue Service and Treasury personnel with responsibilities in the foreign tax credit area. The Institute proposes to simplify foreign tax credit reporting by exempting from certain foreign tax credit limitations imposed by section 904 any person claiming a foreign tax credit of less than \$100 derived solely from RIC investments. As the examples indicate, this proposal would relieve over 90 percent of all shareholders in RICs investing abroad from the obligation to file the Form 1116, and allow them to place the amount of the foreign tax credit directly onto their Form 1040. We will keep you informed of further developments. David J. Mangefrida, Jr. Assistant General Counsel Attachments