MEMO# 8070

July 18, 1996

LEGISLATIVE DEVELOPMENTS ON TAX, PENSION AND INTERNATIONAL ISSUES

July 18, 1996 TO: BOARD OF GOVERNORS No. 42-96 FEDERAL LEGISLATION MEMBERS No. 13-96 INTERNATIONAL MEMBERS No. 9-96 PUBLIC INFORMATION COMMITTEE No. 30-96 RE: LEGISLATIVE DEVELOPMENTS ON TAX, PENSION AND INTERNATIONAL ISSUES ____ Senate Passes Bill with Pension Simplification and Other Provisions On July 9, 1996, the Senate passed its version of H.R. 3448, the "Small Business Job Protection Act of 1996." This bill includes the following provisions supported by the Institute: a new simplified retirement plan (called a SIMPLE plan) for small businesses with 100 or fewer employees; simplified nondiscrimination rules for 401(k) plans; expanding 401(k) plan availability to tax-exempt organizations; an increase from $2,250 to $4,000 in the maximum annual contribution to a spousal Individual Retirement Account; allowing tax-free conversions of bank common trust funds to mutual funds. The first three provisions listed above are also contained in the House-passed version of the bill. H.R. 3448 also includes a controversial provision increasing the federal minimum wage. The differences between the House and Senate versions of the bill need to be resolved in a House-Senate conference. Taxpayer Bill Of Rights 2 Cleared For President On July 11, 1996, the Senate passed without amendment H.R. 2337, the "Taxpayer Bill of Rights 2" (so called because earlier Taxpayer Bill of Rights legislation was enacted in 1988). The House passed the bill on April 16, 1996. H.R. 2337 contains a number of provisions designed to give taxpayers greater rights and protections in their dealings with the Internal Revenue Service. -2- In an earlier version of the bill, civil damages would have been allowed in the case of a "false or fraudulent information return." The House and Senate-passed versions instead limit the civil damage provision to cases involving fraudulent information returns. Thus the provision in the bill passed by the Congress would not subject a mutual fund to civil damages merely for filing a return with a mistake in it. "Mutual Fund Investment Competitiveness Act" Introduced in Senate On July 10, 1996, S. 1942, the "Investment Competitiveness Act of 1996," was introduced by Senators Max Baucus (D-MT), Slade Gorton (R-WA), and Patty Murray (D-WA). The purpose of the bill is to enhance the competitiveness of U.S. mutual funds by providing the same tax treatment to foreign investors when they invest in a U.S. mutual fund as they receive when they invest in a foreign mutual fund. Current U.S. tax law imposes a 30% withholding tax on dividends received by foreign investors, while interest and short-term capital gains are generally not subject to the tax. Since payments received by a foreign investor from a U.S. mutual fund are considered dividends, they are subject to the tax (even though the income ultimately comes from interest or short-term capital gains). However, interest or short-term capital gains received by a foreign person investing through a foreign mutual fund (or investing directly) are not subject to the tax, thereby creating a competitive inequity. A similar bill was introduced last year in the House as H.R. 2045 by Representatives Phil

Crane (R-IL), Sam Gibbons (D-FL), and Jennifer Dunn (R-WA). The Institute strongly supports these legislative proposals. Attached is a copy of the statements made by Senators Baucus, Gorton, and Murray in introducing S. 1942. We will keep you informed of further legislative developments. For those members with access privileges, this memo can be found on ICINet. For additional information, please contact Institute Departments as follows: Legislative Affairs 202-326-8319 Public Information 202-326-5860 ICINET 202-326-5933 Matthew P. Fink President Attachment

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