

MEMO# 3840

June 9, 1992

ROSTENKOWSKI FOREIGN TAX BILL CONTAINS PFIC MARK-TO-MARKET PROVISIONS AND FOREIGN TAX CREDIT SIMPLIFICATION

June 9, 1992 TO: TAX COMMITTEE NO. 23-92 ACCOUNTING/TREASURERS COMMITTEE NO. 27-92 RE: ROSTENKOWSKI FOREIGN TAX BILL CONTAINS PFIC MARK-TO-MARKET PROVISIONS AND FOREIGN TAX CREDIT SIMPLIFICATION

_____, Congressman Rostenkowski (D-Ill.), the Chairman of the House Ways and Means Committee and Congressman Gradison (R-Ohio), a senior Republican on that Committee, have introduced H.R. 5270, the "Foreign Income Tax Rationalization and Simplification Act of 1992". Several provisions of the bill are of interest to regulated investment companies. Both the sections of the bill relating to passive foreign investment companies ("PFICs") (Attachment A) and those relating to the simplified foreign tax credit limitation (Attachment B) are, in all material respects, comparable to those of H.R. 4210, the "Tax Fairness and Economic Growth Act of 1992", passed by Congress and vetoed by the President earlier this year. For a discussion of these provisions, see Institute Memorandum to Tax Members No. 12-92, Closed-End Fund Members No. 10-92, Unit Investment Trust Members No. 14-92, Accounting/Treasurers Members No. 8-92, Operations Members No. 8-92, International Committee No. 4-92, and Transfer Agent Advisory Committee No. 11-92, dated March 2, 1992. In addition, the bill proposes to tax as ordinary dividend income the capital gain realized on the sale of the stock of U.S. corporations by any foreign shareholder owning at least 10 percent of the corporation (Attachment C). Under this proposal, for example, a U.S. regulated investment company in which a foreign investment vehicle owned more than 10 percent of the stock would be required to withhold the tax when the foreign investment company redeemed shares of the U.S. fund. We will keep you informed of further developments. David J. Mangefrida Jr. Assistant Counsel - Tax Attachments