MEMO# 9262

September 24, 1997

INSTITUTE LETTER REGARDING 1997 RIC CAPITAL GAIN DISTRIBUTIONS

1 See Institute Memorandum to Tax Members No. 27-97, Accounting/Treasurers Members No. 31-97, Operations Members No. 13-97, International Members No. 12-97, Closed-End Investment Company Members No. 23-97, Unit Investment Trust Members No. 28-97 and Transfer Agent Advisory Committee No. 36-97, dated August 1, 1997. 2 See Institute Memorandum to Accounting/Treasurers Committee No. 30-97, Operations Committee No. 31- 97, Tax Committee No. 26-97 and Transfer Agent Advisory Committee No. 43-97, dated August 27, 1997. [9262] September 24, 1997 TO: TAX COMMITTEE No. 30-97 ACCOUNTING/TREASURERS COMMITTEE No. 33-97 OPERATIONS COMMITTEE No. 33-97 TRANSFER AGENT ADVISORY COMMITTEE No. 49-97 RE: INSTITUTE LETTER REGARDING 1997 RIC CAPITAL GAIN DISTRIBUTIONS ____ Since enactment of the Taxpayer Relief Act of 1997,1 the Institute has had numerous discussions with officials at the Internal Revenue Service ("IRS") and the Treasury Department regarding the new rules for taxing capital gains and their impact on regulated investment companies ("RICs") and their shareholders. As you know, 2 the Institute submitted a letter to the Treasury Department last month requesting prompt guidance regarding several capital gains issues, including the "flow-through" treatment of a RIC's long-term capital gains. The attached supplemental submission to IRS and Treasury focuses on what tax information RICs will report to shareholders with respect to capital gain distributions made during calendar year 1997. The Institute memorandum begins by summarizing two different capital gains scenarios. In the first, and by far most common, scenario, a RIC realizes gains that receive different tax treatment based only upon the assets' holding periods. In the second, relatively uncommon, scenario, a RIC also realizes gains that receive different tax treatment based upon the type of asset, i.e., precious metals and certain investments in real property, including certain investments in real estate investment trusts ("REITs"). The Institute memorandum recommends that RICs generally report only two capital gain amounts -- the total capital gain dividend and the portion taxable at a maximum rate of 28 percent. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Attachment (in .pdf format)