

MEMO# 2895

June 28, 1991

BILL INTRODUCED TO REPEAL 30 PERCENT TEST, PROVIDE SHAREHOLDER BASIS REPORTING AND CLARIFY TREATMENT OF REIMBURSED EXPENSES FOR MUTUAL FUNDS ONLY

June 28, 1991 TO: CLOSED-END FUND COMMITTEE NO. 15-91 RE: BILL INTRODUCED TO REPEAL 30 PERCENT TEST, PROVIDE SHAREHOLDER BASIS REPORTING AND CLARIFY TREATMENT OF REIMBURSED EXPENSES FOR MUTUAL FUNDS ONLY

The attached bill to (1) repeal the 30 percent test of Internal Revenue Code section 851(b)(3), (2) provide shareholder basis reporting and (3) clarify the treatment of reimbursed expenses under Code section 851(b)(2) has been introduced by Chairman Rostenkowski of the House Ways and Means Committee and several others, including the ranking minority member of the Committee, Congressman Archer. Also attached is Chairman Rostenkowski's statement upon introduction of the bill, which includes a description of the bill's provisions. Section 1 of the bill would repeal the 30 percent test of Code section 851(b)(3) for taxable years ending after the bill's date of enactment. Section 2 of the bill would amend the reporting requirements of Code section 6045 to impose upon mutual funds and brokers the obligation to provide to shareholders and the Internal Revenue Service average cost basis information for shares redeemed from open-end funds. No reporting requirement is imposed with respect to sales or emphasis of closed-end fund shares. Section 3 of the bill would amend the 90 percent qualifying income test of Code section 851(b)(2) to provide that any reimbursement (or other payment) with respect to the fund's expenses will be disregarded in determining qualification under that section. Thus, under the bill, a fund would not be limited by expense reimbursements or by an advance negotiation which does not result in any gross income to the fund. The accompanying explanation to the bill indicates that no inference is intended with respect to the treatment of reimbursed expenses under present law. This provision would apply to taxable years ending after the bill's date of enactment. We will keep you information of developments regarding this legislation. Keith D. Lawson
Associate Counsel - Tax Attachments CDT:bmb