

MEMO# 5292

November 3, 1993

WAYS AND MEANS COMMITTEE APPROVES 30% REPEAL, SHAREHOLDER BASIS REPORTING, COMMON TRUST FUND CONVERSION, AND PENSION SIMPLIFICATION PROVISIONS

November 3, 1993 TO: BOARD OF GOVERNORS NO. 99-93 FEDERAL LEGISLATION
COMMITTEE NO. 37-93 FEDERAL LEGISLATION MEMBERS NO. 34-93 30% REPEAL ISSUES
GROUP PENSION SIMPLIFICATION ISSUES GROUP RE: WAYS AND MEANS COMMITTEE
APPROVES 30% REPEAL, SHAREHOLDER BASIS REPORTING, COMMON TRUST FUND
CONVERSION, AND PENSION SIMPLIFICATION PROVISIONS

Today, the House Ways and Means Committee ordered favorably reported H.R. 3419, the "Tax Simplification and Technical Corrections Act of 1993," a modified version of the tax simplification and technical corrections bills introduced this past January by Chairman Rostenkowski. The reported bill has several provisions relating specifically to mutual funds, including ones which would repeal the 30% limitation, require that funds report cost basis information to shareholders redeeming shares, and permit the conversion of bank common trust funds to mutual funds. With regard to shareholder basis reporting, the revised bill includes a major modification sought by the Institute relating to wash sales. The wash sale rule in present law prohibits the deduction of a loss on the sale or exchange of stock or securities if substantially identical stock or securities are acquired between 30 days before and 30 days after the sale or exchange. This can be a relatively common occurrence if a mutual fund shareholder redeems shares in December and participates in a dividend reinvestment program which automatically purchases shares in January. Under the modification in H.R. 3419, the wash sale rule will not apply to December redemptions when the amount of the otherwise disallowed loss is \$25 or less. This de minimis provision will remove the need for sending shareholders and the Internal Revenue Service amended information returns involving small amounts of money. -2- H.R. 3419 also incorporates pension simplification provisions, including provisions to simplify nondiscrimination rules for 401(k) plans and to increase from 25 to 100 the maximum number of participants in a Salary Reduction Simplified Employee Pension. The House is expected to take action on this bill soon. We will keep you posted as further developments occur. Please call if you would like additional information. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under "Legislative Affairs; Washington Update." Michael Stern Legislative Representative for Taxation

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