

MEMO# 2898

July 11, 1991

WAYS AND MEANS LEADERSHIP INTRODUCES MUTUAL FUND BILL

July 11, 1991 TO: FEDERAL LEGISLATION MEMBERS NO. 7-91 FEDERAL LEGISLATION
COMMITTEE NO. 8-91 RE: WAYS AND MEANS LEADERSHIP INTRODUCES MUTUAL FUND BILL

On June 24, a bipartisan group of the House Ways and Means Committee, led by Chairman Dan Rostenkowski (D-IL) and ranking minority member Bill Archer (R-TX), introduced legislation to modify the tax treatment of mutual funds. Joining Rostenkowski and Archer in support of the bill were Michael Andrews (D-TX), Raymond McGrath (R-NY), Beryl Anthony (D-AR), Barbara Kennelly (D-CT) and William Thomas (R-CA). The bill would repeal the so-called "short-short" test, provide shareholder basis reporting information and clarify treatment of reimbursed expenses. The Chairman's Congressional Record statement is attached, as is a copy of the bill and explanation. In introducing the bill, the Chairman noted that "the tax treatment of mutual funds and their shareholders has not kept pace with changes in the industry. The bill that I am introducing today will be a major step toward rectifying that situation." Chairman Rostenkowski expects that the bill will be the subject of a hearing in the near future. SUMMARY OF PROVISIONS Section 1 of the bill would repeal the 30 percent ("short-short") test of section 851(b)(3) of the Internal Revenue Code for all taxable years ending after the date of enactment. The Chairman added that "Repeal of the rule will reduce tax compliance burdens for mutual funds and bring the tax laws in line with the realities of present-day securities markets and investment strategies." Section 2 of the bill would require mutual funds and brokers to provide average cost basis information to fund shareholders for accounts opened on or after January 1, 1993. Additional shareholder reporting provisions are detailed in the Attachments. -2- Section 3 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 disqualified under section 851(b)(2) whether fees are limited by expense reimbursements or by an advance negotiation which does not result in any gross income to the fund. The introduction of the legislation is encouraging and should be viewed as a very positive development. We will keep you informed of further developments. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs, Washington Update. Julie Domenick Vice President Legislative Affairs Attachments

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