

MEMO# 11089

June 29, 1999

INSTITUTE LETTER URGES CLARIFICATION OF PROCEDURES FOR SHAREHOLDER REPORTING OF CAPITAL GAINS ON 1999 TAX RETURNS

1 See, e.g., Institute Memorandum to (among others) Tax Members No. 27-97, Accounting/Treasurers Members No. 31-97, Operations Members No. 13-97 and Transfer Agent Advisory Committee No. 36-97, dated August 1, 1997. 2 See, e.g., Institute Memorandum to (among others) Tax Members No. 38-97, Accounting/Treasurers Members No. 42-97, Broker/Dealer Advisory Committee No. 16-97, Operations Members No. 23-97 and Transfer Agent Advisory Committee No. 57-97, dated October 17, 1997. [11089] June 29, 1999 TO: ACCOUNTING/TREASURERS COMMITTEE No. 20-99 BANK AND TRUST ADVISORY COMMITTEE No. 15-99 BROKER/DEALER ADVISORY COMMITTEE No. 16-99 OPERATIONS COMMITTEE No. 26-99 TAX COMMITTEE No. 14-99 TRANSFER AGENT ADVISORY COMMITTEE No. 42-99 RE: INSTITUTE LETTER URGES CLARIFICATION OF PROCEDURES FOR SHAREHOLDER REPORTING OF CAPITAL GAINS ON 1999 TAX RETURNS

As you know, changes made by the Taxpayer Relief Act of 1997 to the rules for taxing capital gains¹ resulted in new capital gains reporting requirements for those mutual fund shareholders whose only capital gain income was from mutual fund capital gain dividends reported on IRS Forms 1099-DIV. Specifically, the Federal income tax returns for both 1997 and 1998 required that all taxpayers with capital gains complete the 54-line Schedule D.² Previously, any mutual fund shareholder whose only capital gains were capital gain dividends could report those gains on line 13 of Form 1040 without any requirement to complete Schedule D. We are pleased to inform you that the draft Form 1040 for 1999 that has been placed on the IRS website (attached) appears to take a significant step, requested by the Institute, toward simplifying capital gains tax reporting for mutual fund shareholders. Specifically, the draft Form 1040 provides a box to be checked by those taxpayers no longer required to complete Schedule D. Professional staff members of the IRS Tax Forms and Publications Division have indicated that this change will apply to those mutual fund shareholders whose only capital gains are from capital gain dividends (no portion of which is taxable at a maximum rate in excess of 20 percent). For 1999, these taxpayers will be able to check the box and report their gains on Form 1040 without completing Schedule D, just as they did prior to 1997. The attached Institute letter to the IRS thanks the Tax Forms and Publications Division for its efforts to simplify tax reporting of investment income and capital gains, expresses strong support for this change to the 1999 Form 1040, and urges prompt release of an "official" announcement of this change. The letter suggests that this announcement

could be as simple as release of the draft instructions for the Form 1040 for 1999, which presently are not available on the IRS website. Keith D. Lawson Senior Counsel Attachments

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