

MEMO# 8535

January 7, 1997

MATERIALS FOR JANUARY 15 MEETING ON EXCISE TAX PROPOSAL

1 See Institute Memorandum to Tax Committee No. 37-96, dated December 24, 1996. 2 The attached materials describe the proposal in more detail. January 7, 1997 TO: TAX COMMITTEE No. 1-97 RE: MATERIALS FOR JANUARY 15 MEETING ON EXCISE TAX PROPOSAL

As you know, a meeting will be held on January 15, 1997, at 1:30 p.m., in the Institute's David Silver Conference Room (1401 H Street, NW, 12th Floor) to discuss an expanded and modified Institute proposal for simplifying the interaction between the minimum distribution requirements of section 4982 and the income tax distribution requirements of Subchapter M.1 Specifically, we will discuss a proposal² that contains the following elements: (1) A regulated investment company's ("RIC's") "required distribution" would be based upon taxable year income measured at year-end and other specific dates. For example, the required distribution of a RIC with a June 30 taxable year would be (a) 100 percent of its net ordinary income and capital gain net income for the taxable year ending on June 30, (b) 98 percent of its taxable year-to-date ordinary income at December 31 and (c) 98 percent of its taxable year-to-date capital gain net income at October 31. (2) Earnings and profits would be determined without regard to any net ordinary loss arising after December 31, thereby eliminating the "post- December ordinary loss" problem. (3) The rules for deferring post-October losses for designation purposes would be elective, thereby eliminating problems created currently by mandatory deferral. (4) Elective deferral of "post-October net short-term capital losses" would be provided, thereby eliminating problems created by the current inability to defer them. (5) An October 31 "cut off" would be applied to all income arising from dispositions of capital assets, thereby eliminating the distribution problems that can arise from certain dispositions during November and December that create ordinary income. If you would like to attend the meeting on January 15, but have not yet so indicated, please call Theresa Brice at 202-326-5833. If you would like to discuss the proposal, please feel free to call the undersigned at 202-326-5832. Keith D. Lawson
Associate Counsel - Tax Attachments (in .pdf format)