

MEMO# 7105

July 13, 1995

ILLINOIS CLARIFIES TREATMENT OF RICS THAT RETAIN CAPITAL GAINS

July 13, 1995 TO: TAX COMMITTEE No. 27-95 CLOSED-END FUND COMMITTEE No. 35-95
UNIT INVESTMENT TRUST COMMITTEE No. 56-95 RE: ILLINOIS CLARIFIES TREATMENT OF
RICS THAT RETAIN CAPITAL GAINS

Illinois has adopted legislation clarifying its treatment of regulated investment companies ("RICs") that retain capital gains. Under Illinois law, a RIC computes its Illinois taxable income by adding back to federal taxable income the amount by which its long-term capital gains realized during a year exceed its "capital gain dividends" for the year. The statutory change clarifies that the term "capital gain dividends" includes both distributed long-term capital gains, that are designated in accordance with Internal Revenue Code section 852(b)(3)(C), and retained long-term capital gains, that are deemed distributed to shareholders pursuant to Internal Revenue Code section 852(b)(3)(D). The legislation provides that the amendment is "declarative of existing law," thereby overruling a position taken last year by the Illinois Department of Revenue that the term "capital gain dividends" includes only amounts actually distributed by a RIC to its shareholders. We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax

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