

MEMO# 2737

May 6, 1991

CONGRESSIONAL PROPOSAL TO REQUIRE SHAREHOLDER BASIS REPORTING

May 6, 1991 TO: BOARD OF GOVERNORS NO. 30-91 TAX MEMBERS NO. 12-91 OPERATIONS COMMITTEE NO. 14-91 TRANSFER AGENT ADVISORY COMMITTEE NO. 23-91 RE: CONGRESSIONAL PROPOSAL TO REQUIRE SHAREHOLDER BASIS REPORTING

As you may know, last year the staff of the House Ways and Means Committee included in its proposals for tax simplification a proposal that would have required mutual funds to calculate the basis of fund shares redeemed. (See Institute Memorandum to Accounting/Treasurers Committee No. 16-90, Operations Committee No. 11-90, Tax Committee No. 12-90, and Transfer Agent Advisory Committee No. 17-90, dated June 20, 1990). In response to this proposal, the Institute sent a letter to Chairman Rostenkowski explaining the complexity and difficulty associated with such a system. No further legislative efforts to require mutual fund shareholder basis reporting were made last year, although it was indicated that the issue would be revisited. Recently, the staffs of the House Ways and Means Committee and the Joint Committee on Taxation have expressed renewed interest in a shareholder basis reporting proposal for mutual funds. As we understand the current staff thinking, funds would be required, with respect to accounts opened after some future date, to report cost basis information to shareholders on a first-in, first-out (FIFO) method, taking into account all adjustments to basis, such as returns of capital, wash sales, etc. This information would be reported to the Internal Revenue Service and to fund shareholders, who would be required to use it in computing their gains and losses for federal tax purposes. On May 3, the Institute staff met with representatives of the Congressional staffs to express industry concerns with respect to shareholder basis reporting. We will be continuing discussions on this issue and will keep you informed of developments. Matthew P. Fink Senior Vice President and General Counsel