

MEMO# 6694

February 28, 1995

MARKET DISCOUNT LEGISLATION INTRODUCED

February 28, 1995 TO: BOARD OF GOVERNORS No. 34-95 FEDERAL LEGISLATION
COMMITTEE No. 12-95 FEDERAL LEGISLATION MEMBERS No. 12-95 TAX COMMITTEE No.
7-95 RE: MARKET DISCOUNT LEGISLATION INTRODUCED

On February 7, 1995, Congressmen Benjamin Cardin (D-MD) and Clay Shaw (R-FL) introduced H.R. 843, a bill to revise the tax treatment of municipal securities purchased at market discount. In 1993, the Congress included in the deficit reduction legislation a provision treating the gain on a tax-exempt bond sold at a market discount as ordinary income (rather than as a capital gain). H.R. 843 would repeal the 1993 provision, so that the gain would once again be treated as a capital gain. The 1993 provision created a problem for funds that must distribute 98 per cent of their ordinary income for the calendar year by December 31 each year. The Institute has proposed a technical correction to resolve this problem by permitting funds to distribute market discount on a November 1 - October 31 year basis. Obviously, repeal of the 1993 market discount provision would eliminate the need for this technical correction. A copy of H.R. 843 is attached. We will keep you informed as these matters develop. For additional information, please contact the Legislative Affairs Department at (202) 326-5890. This memo can be found on FUNDS, the Institute's Fund User Network and Delivery System, under "Legislative Affairs; Washington Update." Michael Stern Legislative Representative for Taxation Keith Lawson Associate Counsel for Taxation Attachment

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