INVESTMENT COMPANY INSTITUTE

MEMO# 3908

July 2, 1992

HOUSE APPROVES REVENUE ACT OF 1992

July 2, 1992 TO: BOARD OF GOVERNORS NO. 43-92 TAX MEMBERS NO. 42-92 ACCOUNTING/TREASURERS MEMBERS NO. 25-92 CLOSED-END FUND MEMBERS NO. 31-92 OPERATIONS MEMBERS NO. 23-92 UNIT INVESTMENT TRUST MEMBERS NO. 41-92 TRANSFER AGENT ADVISORY COMMITTEE NO. 32-92 RE: HOUSE APPROVES REVENUE ACT OF 1992 ____ The House of Representatives today approved tax legislation containing several provisions relevant to the investment company industry. The following is a summary of the provisions affecting regulated investment companies (RICs) and their shareholders. Except as otherwise described, all relevant provisions are substantively identical to those previously contained in H.R. 4210, the "Tax Fairness and Economic Growth Act of 1992", which was vetoed by the President in March. (See Institute Memorandum to Board of Governors No. 19-92, Tax Members No. 15-92, Closed- End Fund Members No. 13-92, Unit Investment Trust Members No. 20-92, Accounting/Treasurers Members No. 12-92, Operations Members No. 11-92, International Committee No. 7-92, Institutional Funds Committee No. 3-92 and Transfer Agent Advisory Committee No. 14-92, dated March 23, 1992.) Anyone interested in obtaining copies of relevant House Ways and Means Committee Report and statutory bill language may do so by calling the undersigned at (202) 955-3521. I. Mutual Fund Tax Simplification The bill would repeal the 30 percent test of Internal Revenue Code section 851(b)(3) for taxable years beginning after the date of enactment. The bill also would require funds and brokers to provide shareholders and the Internal Revenue Service with average cost basis information for shares redeemed. The reporting would be done on an account-by-account basis, and the taxpayer could elect whether or not to the use the information for each account. The provision would be effective for accounts opened after December 31, 1993, and would not apply to accounts in which shares had been acquired other than through purchase. A third mutual fund simplification provision would permit tax-free conversions of bank common trust funds into RICs. II. Foreign Investment Provisions The bill would allow individuals with no more than $200 of creditable foreign taxes and no other foreign source income to elect a simplified foreign tax credit limitation which would not require a taxpayer to complete a separate tax form. The provision would apply to taxable years beginning after December 31, 1991. The bill also contains modifications to the passive foreign investment company ("PFIC") rules. It would add a mark-to-market tax system to the two existing tax regimes for PFICs. The bill contains a transition rule which would allow a RIC to mark-to- market its PFIC stock held on the date of enactment of the bill and pay a nondeductible interest charge on any gain. The PFIC provisions would be generally applicable for taxable years beginning after December 31, 1992. III. Amortization of Intangible Assets The bill would require that the purchase price of certain acquired intangible assets be amortized over a uniform 14-year period. Among the intangible assets included under the bill are goodwill, going concern value, and various customer-based intangibles such as investment advisory contracts. The provision generally would be effective for property acquired after the date of enactment of the bill, although a taxpayer may elect to have the bill apply to all property acquired after July 25, 1991. IV. Taxpayer Bill of Rights Amendment The bill contains a provision which would require a payor, including a RIC, to include the name, address and telephone number of the payor's information contact on information statements sent to payees. * * * We will keep you informed of developments. David J. Mangefrida Jr. Assistant Counsel - Tax

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