

**MEMO# 12499**

August 18, 2000

# **PROCEDURES FOR SHAREHOLDER REPORTING OF CAPITAL GAINS ON FORM 1040A SIMPLIFIED FOR 2000 TAX RETURNS**

[12499] August 18, 2000 TO: ACCOUNTING/TREASURERS COMMITTEE No. 31-00 BANK AND TRUST ADVISORY COMMITTEE No. 20-00 BROKER/DEALER ADVISORY COMMITTEE No. 18-00 OPERATIONS COMMITTEE No. 17-00 TAX COMMITTEE No. 34-00 TRANSFER AGENT ADVISORY COMMITTEE No. 39-00 RE: PROCEDURES FOR SHAREHOLDER REPORTING OF CAPITAL GAINS ON FORM 1040A SIMPLIFIED FOR 2000 TAX RETURNS We are pleased to inform you that the draft Form 1040A for 2000 and a new Form 1040A Capital Gain Tax Worksheet have been placed on the IRS website (attached). The draft Form 1040A simplifies the procedures for taxpayer reporting of capital gain distributions. Specifically, taxpayers receiving capital gain distributions reported on IRS Forms 1099-DIV are now eligible to file Form 1040A and are no longer required to file Form 1040. Professional staff members of the IRS Tax Forms and Publications Division have indicated that this change to Form 1040A will apply to mutual fund shareholders whose only capital gains are from capital gain dividends (no portion of which is taxable at a maximum rate in excess of 20 percent). Be advised that the 2000 Form 1099-DIV contains an incorrect instruction stating that recipients receiving capital gain distributions cannot file Form 1040A for 2000. To eliminate any potential confusion, and as urged by the Institute, the IRS will post the following article on the "What's Hot" page of its website at <http://www.irs.treas.gov/prod/hot/index.html>: "New for 2000, Capital Gain Distributions Reported on Form 1040A Beginning in 2000, capital gain distributions can be reported on line 10 of Form 1040A, <http://ftp.fedworld.gov/pub/irs-dft/d1040a.pdf>. Because of this change, there is a conflict with the Caution included in the instructions on the back of Copy B of the 2000 Form 1099-DIV, <http://ftp.fedworld.gov/pub/irs-pdf/f1099d00.pdf>. The Caution tells recipients if there is an amount in box 2a (total capital gain distributions), they must file Form 1040 and cannot use Form 1040A. However, because of the addition of line 10 on the 2000 Form 1040A, a recipient of Form 1099-DIV with an amount in box 2a can file Form 1040A. Also for 2000, the instructions for Form 1040A will contain a Capital Gains Tax Worksheet, <http://ftp.fedworld.gov/pub/irs-dft/e1040acg.pdf>, to figure the tax. The worksheet is similar to the one in the 1999 Form 1040 instructions. 2If you issue the official IRS Form 1099-DIV, Copy B, to recipients, you may inform them about the change and to disregard the Caution. If you issue a substitute Copy B, you may omit the Caution as well as inform recipient about the change." Deanna J. Flores Assistant Counsel Attachment Attachment (in .pdf format)

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