MEMO# 4540

March 1, 1993

CLINTON ADMINISTRATION TAX PROPOSALS

- 1 - March 1, 1993 TO: TAX COMMITTEE NO. 11-93 RE: CLINTON ADMINISTRATION TAX PROPOSALS ____ The Clinton Administration's economic plan contains several tax proposals of interest to regulated investment companies ("RICs") and their shareholders. The Administration's explanations for many of these proposals are attached. 1. Targeted Capital Gains Exclusion (Attachment A). Under the proposal, an individual investor who held "qualified small business stock" for at least 5 years, either directly or through a pass-through entity such as a RIC, would (subject to certain limitations) be permitted to exclude from income 50 percent of any gains realized upon the disposition of the stock. In general, a qualified small business would be a subchapter C corporation (1) with a capitalization of less than $25 million, during the period beginning January 1, 1993 and ending on the date the taxpayer acquires stock in the corporation, (2) that uses substantially all of its assets in the active conduct of a trade or business. To qualify for the 50 percent exclusion, a shareholder would be required to acquire the qualified small business stock directly or indirectly, such as through a RIC, after December 31, 1992 and at its original issue. 2. Denial of Deduction for Lobbying Expenses (Attachment B). The proposal would disallow the deduction for lobbying expenses. Such expenses would be defined similarly to the definition of expenditures to influence legislation in section 4911(d) of the Internal Revenue Code and would include attempting to influence legislation through communications with both the legislative and the executive branches. 3. Service Industry Non-Compliance Initiative (Attachment C). The Administration's proposal would require a payor to report annual payments of $600 or more made to all persons, including corporations, for services purchased in the course of the payor's trade or business. Reporting would be required with respect to payments made after December 31, 1993. 4. Fee on Futures Transactions (Attachment D). Another - 2 - proposal would impose a fee on all transactions on U.S. futures exchanges. Proceeds from this transaction fee would be used to cover the costs of the Commodity Futures Trading Commission. * * * We will keep you informed of developments. Keith D. Lawson Associate Counsel - Tax Attachments