

MEMO# 10394

October 21, 1998

CAPITAL GAINS TECHNICAL CORRECTION INCLUDED IN BUDGET BILL PASSED TODAY BY CONGRESS

1 The bill is H.R. 4328, the Omnibus Consolidated and Emergency Supplemental Appropriations Act. 2 See Institute Memorandum to Tax Members No. 18-98, Accounting/Treasurers Members No. 16-98, Operations Members No. 17-98, Closed-End Investment Company Members No. 19-98, Unit Investment Trust Members No. 14-98, International Members No. 13-98, Transfer Agent Advisory Committee No. 33-98 and Broker/Dealer Advisory Committee No. 10-98, dated June 26, 1998. 3 The 20 percent maximum rate is reduced to 10 percent for taxpayers in the 15 percent rate bracket. In addition to 20 percent/10 percent rate gain, some RICs may have "collectibles gain" that remains taxable at a 28 percent maximum rate and/or "unrecaptured section 1250 gain" that remains taxable at a 25 percent maximum rate. 4 See Institute Memorandum to Tax Members No. 31-98, Accounting/Treasurers Members No. 25-98, Closed-End Investment Company Members No. 30-98, Unit Investment Trust Members No. 23-98, Operations Members No. 25-98 and Transfer Agent Advisory Committee No. 33-98, dated September 28, 1998. [10394] VIA FAX October 21, 1998 TO: TAX COMMITTEE No. 32-98 ACCOUNTING/TREASURERS COMMITTEE No. 46-98 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 22-98 UNIT INVESTMENT TRUST COMMITTEE No. 30-98 OPERATIONS COMMITTEE No. 40-98 TRANSFER AGENT ADVISORY COMMITTEE No. 68-98 RE: CAPITAL GAINS TECHNICAL CORRECTION INCLUDED IN BUDGET BILL PASSED TODAY BY CONGRESS

We are pleased to inform you that the budget bill passed today by Congress¹ contains the technical correction sought by the Institute to the effective date for capital gains legislation enacted this summer (that reduced the required holding period for the maximum 20 percent tax rate from more than 18 months to more than one year).² Pursuant to the technical correction, essentially all RIC capital gain dividends paid to shareholders during 1998 will be taxed at a maximum rate of 20 percent.³ A separate memorandum will be mailed to you, after President Clinton signs the bill, that describes in detail this provision and others of interest. The memorandum also will provide relevant statutory language and committee explanations. Of note, the statutory language for the capital gains technical correction is the same as the language that was included in the bill approved by the House of Representatives in September.⁴ Keith D. Lawson Senior Counsel

should not be considered a substitute for, legal advice.