

MEMO# 9345

October 17, 1997

IRS FINALIZES SCHEDULE D FOR REPORTING CAPITAL GAINS AND LOSSES

1 See Institute Memorandum to Tax Members No. 27-97, Accounting/Treasurers Members No. 31-97, Operations Members No. 13-97, International Members No. 12-97, Closed-End Investment Company Members No. 23-97, Unit Investment Trust Members No. 28-97 and Transfer Agent Advisory Committee No. 36-97, dated August 1, 1997. 2 See Institute Memorandum to Tax Committee No. 33-97 and Accounting/Treasurers Committee No. 37-97, dated October 6, 1997. 3 See Institute Memorandum to Tax Members No. 37-97, Accounting/Treasurers Members No. 40-97, Operations Members No. 22-97, Closed-End Investment Company Members No. 29-97, Unit Investment Trust Members No. 40-97 and Transfer Agent Advisory Committee No. 56-97, dated October 10, 1997. [9345] October 17, 1997 TO: TAX MEMBERS No. 38-97 ACCOUNTING/TREASURERS MEMBERS No. 42-97 BROKER/DEALER ADVISORY COMMITTEE No. 16-97 CLOSED-END INVESTMENT COMPANY MEMBERS No. 30-97 OPERATIONS MEMBERS No. 23-97 TRANSFER AGENT ADVISORY COMMITTEE No. 57-97 UNIT INVESTMENT TRUST MEMBERS No. 42-97 RE: IRS FINALIZES SCHEDULE D FOR REPORTING CAPITAL GAINS AND LOSSES

The Internal Revenue Service ("IRS") has finalized the Form 1040 Schedule D, Capital Gains and Losses, and instructions (attached) that will be used by individuals to report capital gains realized during 1997. Release of the Schedule D was delayed until Congress and the Administration agreed on whether or not to modify the recently-enacted capital gains rules¹ to make certain "technical corrections" that would apply retroactively to the original enactment of the law.² The final version of Schedule D reflects the capital gains rules as they will appear once Congress enacts the Tax Technical Corrections Act of 1997, the bipartisan bill supported by the Administration that was approved by the House Ways and Means Committee on October 9.³ Every fund shareholder who receives a capital gain dividend or realizes a capital gain or loss on the redemption or sale of fund shares will be required to file a Schedule D with his or her 1997 tax return. Previously, fund shareholders were not required to file Schedule D if their 4 Any undistributed capital gain reported to shareholders on IRS Form 2439 will be reported on line 11 of Schedule D. only capital gain transactions were capital gain distributions reported to them on IRS Form 1099-DIV. The full amount of a shareholder's capital gain distributions received from funds will be reported on line 13(f) of Schedule D.⁴ Fund shareholders also will report, on line 13(g), the portion of the amount reported on line 13(f) that is taxed at a 28% maximum rate. This amount, which includes gains defined under the Taxpayer Relief Act of 1997 as "pre-effective date gain," "mid-term gain" and "collectibles gain," will be called "28% rate gain" once the technical corrections bill is enacted and, accordingly, is called "28% rate gain" on the Schedule D. Gains and losses on the redemption or sale of fund shares will be reported on Part I of Schedule D (Short-Term Capital Gains and Losses) if the shares were held for one year or less and on

Part II (Long-Term Capital Gains and Losses) if they were held for more than one year. Column (f) of Part II will be used to report all gain or loss on assets held for more than one year; column (g) of Part II will be used to report that portion of the gain or loss reported in column (f) that is "28% rate gain or loss." Part IV of Schedule D -- Tax Computation Using Maximum Capital Gains Rates -- is an expanded version of the worksheet that previously was contained in the instructions to IRS Form 1040. In prior years, only fund shareholders with taxable income in excess of the amount taxed at a 28% marginal rate were required to complete this worksheet. For 1997, all fund shareholders reporting taxable income and net capital gains will be required to complete Part IV. Keith D. Lawson Associate Counsel - Tax Attachments

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