

MEMO# 9417

November 17, 1997

IRS RELEASES FORM 1099-DIV FOR DIVIDENDS PAID DURING 1998

1 See Institute Memorandum to Tax Members No. 41-97, Accounting/Treasurers Members No. 44-97, Operations Members No. 25-97, Closed-End Investment Company Members No. 33-97, Unit Investment Trust Members No. 46-97, Transfer Agent Advisory Committee No. 61-97 and Broker/Dealer Advisory Committee No. 17-97, dated October 28, 1997. [9417] November 17, 1997 TO: TAX MEMBERS No. 46-97 ACCOUNTING/TREASURERS MEMBERS No. 49-97 OPERATIONS MEMBERS No. 31-97 TRANSFER AGENT ADVISORY COMMITTEE No. 66-97 BROKER/DEALER ADVISORY COMMITTEE No. 20-97 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 45-97 UNIT INVESTMENT TRUST COMMITTEE No. 66-97 RE: IRS RELEASES FORM 1099-DIV FOR DIVIDENDS PAID DURING 1998

The Internal Revenue Service ("IRS") has released the "official" IRS Form 1099-DIV (attached) for use by payers, including regulated investment companies ("RICs"), in reporting dividends paid to shareholders during 1998. The IRS release did not include any guidance regarding dividend reporting on "substitute" Forms 1099-DIV. The 1998 IRS Form 1099-DIV modifies in several respects the Form 1099-DIV used for dividends paid during 1997. One significant modification made by the 1998 Form is the requirement that RICs report the dollar amounts of various "subcategories" of long-term capital gain. For capital gain dividends paid during 1997, RICs are required only to provide "information sufficient to determine" these amounts.¹ The boxes into which tax information must be placed also have been modified on the 1998 Form. First, unlike the 1997 Form, the 1998 Form does not include a "gross dividends and other distributions on stock" box. Consequently, the 1998 Form provides that ordinary dividends are to be reported in Box 1, rather than Box 1b; long-term capital gains are to be reported in Box 2a, rather than Box 1c; and nontaxable distributions are to be reported in Box 3, rather than Box 1d. Second, unlike the 1997 Form (which included only one box for the total amount of a RIC's capital gain distribution), the 1998 Form also includes three additional boxes for the dollar amounts, if any, of three "subcategories" of the capital gain distribution. Specifically, RICs will be required to report for 1998 the amount of each shareholder's 28 percent rate gain (in Box 2b), unrecaptured section 1250 gain (in Box 2c) and section 1202 gain. As discussed in the Form 1099-DIV's "instructions for recipient," the 28 percent rate gain amount will equal the sum of gain on assets held for more than one year, but not more than 18 months, and collectibles gains and losses. Section 1202 gain from certain small business stock is reported separately, even though section 1202 gain is included within the definition of 28 percent rate gain (as modified by pending technical corrections legislation). 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. - 2 - (in Box

2d).2 Third, to reflect these changes, the boxes for the other information reported, such as federal income tax withheld, have been renumbered. Keith D. Lawson Associate Counsel - Tax Attachment (in .pdf format) Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Library Services Division at (202)326-8304, and ask for this memo's attachment number: 9417.

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