

**MEMO# 7063**

June 28, 1995

## **ILLINOIS CLARIFIES TAXATION OF REGULATED INVESTMENT COMPANIES (VOID BY LAWSON)**

June 28, 1995 TO: TAX COMMITTEE No. 24-95 RE: ILLINOIS CLARIFIES TAXATION OF  
REGULATED INVESTMENT COMPANIES (VOID BY LAWSON)

\_\_\_\_\_ Illinois has adopted legislation amending its corporate income tax statute to clarify how regulated investment companies should compute their Illinois taxable income. Illinois law requires a RIC to compute its Illinois taxable income by adding back to this federal taxable income any long-term capital gains realized during a year in excess of its "capital gains dividends" for the year. In a letter ruling issued last year the Illinois Department of Revenue ruled that the term "capital gains dividends" includes only amounts actually distributed by a RIC to its shareholders, and not amounts deemed distributed to shareholders (and taxed directly to shareholders) under section 852(b)(3)(D) of the Internal Revenue Code. The recent amendment defines "capital gains dividends" to include amounts deemed distributed as well as actual distributions. This amendment will reduce the capital gains addback for any RIC with deemed capital gains distributions during a year, and preclude deemed distributions from being taxed at both the RIC and the shareholder level. The legislation provides that the amendment is "declarative of existing law," thereby overruling the department's position taken in the 1994 ruling. We will keep you informed of developments

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