

MEMO# 2901

July 3, 1991

RECENT TAX AND PENSION LEGISLATIVE DEVELOPMENTS

July 3, 1991 TO: BOARD OF GOVERNORS NO. 51-91 EXECUTIVE COMMITTEE NO. 15-91 RE: RECENT TAX AND PENSION LEGISLATIVE DEVELOPMENTS

In addition to H.R. 2735, the mutual fund tax bill, three other bills containing tax and pension provisions significant to the fund industry were introduced last week. In the tax area, H.R. 2777, "Tax Simplification Act of 1991", the tax simplification legislation sponsored by the leadership of the House and Senate tax-writing Committees addresses two problems of industry concern: the tax treatment of shares of a passive foreign investment company (PFIC) held by a fund and the reporting of foreign tax credits. The bill adopts a mark-to-market system for both mutual funds and closed-end funds holding PFIC shares and simplifies the foreign tax credit reporting for mutual fund shareholders. Both provisions were supported by the Institute. In the pension area, bills introduced last week contain provisions that are important for industry members participating in the retirement plan market. The bills, one sponsored by Ways and Means Committee Chairman Rostenkowski and the other by Senate Finance Committee Chairman Bentsen and Finance Committee Member David Pryor, would revise the rules currently applicable to so-called SARSEPs (salary reduction simplified employee pensions). Both bills would permit such plans, which are now limited to employers with 25 or fewer employees, to be maintained by employers with 100 or fewer employees. Each bill would also simplify the applicable non-discrimination rules, although each does so differently. Pension portability, the ability to rollover to an IRA pre-retirement distributions from a qualified pension plan, is also addressed by both the Rostenkowski and Bentsen/Pryor bills. The Rostenkowski bill would require all qualified plans to affirmatively offer participants the election to have their distributions transferred directly to an IRA, while the Bentsen/Pryor bill would require such a transfer. The Rostenkowski bill also authorizes the Treasury to prescribe certain responsibilities for sponsors of master and prototype - 1 - plans such as mutual fund organizations, which are intended to increase the accountability of such sponsors for the plans of adopting employers. We are generally pleased that these bills have been introduced and will continue to work for a favorable resolution of the issues addressed in them. We will keep you informed as the legislation progresses. David Silver
President