INVESTMENT COMPANY INSTITUTE

**MEMO# 7452**

December 1, 1995

# 1995 REPORTING OF LONG-TERM CAPITAL GAINS

* See Institute Memorandum to Accounting/Treasurers Members No. 54-95, Closed-End Fund Committee No. 57-95, International Committee No. 38-95, Operations Committee No. 34-95, Tax Members No. 52-95, Transfer Agent Advisory Committee No. 60-95 and Unit Investment Trust Committee No. 82-95, dated November 21, 1995. December 1, 1995 TO: TAX COMMITTEE No. 36-95 ACCOUNTING/TREASURERS COMMITTEE No. 53-95 OPERATIONS COMMITTEE No. 36-95 TRANSFER AGENT ADVISORY COMMITTEE No. 61-95 CLOSED-END FUND COMMITTEE No. 59-95 UNIT INVESTMENT TRUST COMMITTEE No. 85-95 RE: 1995 REPORTING OF LONG-TERM CAPITAL GAINS ____________________________________________________________ As we previously informed you* the "Balanced Budget Act of 1995" (the "Act") that Congress recently approved would permit individuals to claim a 50 percent deduction for net long-term capital gains realized from dispositions on or after January 1, 1995. In the case of gains realized by a regulated investment company ("RIC") and distributed to its shareholders, eligibility for the capital gains deduction at the shareholder level would be determined under a "look through" approach based upon the date each asset was sold by the RIC, rather than upon the date the shareholder distribution was made. Although the President is expected to veto this legislation, a compromise budget reconciliation bill could include capital gains effective date and "look-through" provisions comparable to those contained in the Act. In this event, shareholders would need to be advised of the portion of their capital gain dividend attributable to 1994 and, separately, the portion attributable to 1995 dispositions. For example, if half of a RICs 1995 capital gain dividend were attributable to 1994 dispositions and half attributable to 1995 dispositions, individual shareholders would need to know that half of the dividend was eligible for the new 50 percent deduction, with the remaining half taxable under the "old" rules, i.e., subject to tax at a maximum 28 percent rate. At this time, no guidance exists regarding how such information would be reported to shareholders. The Institute has discussed this reporting issue with an IRS official, who indicated that the IRS Form 1099-DIV for 1995 distributions would NOT be revised to provide separate boxes for capital gains realized by RICs in 1994 and 1995. Instead, according to this official, an announcement would be made promptly following enactment of legislation indicating that RICs would have great flexibility in reporting these gains to shareholders, such as by including the information with other "supplemental" tax information. The chances for enactment of capital gains legislation during 1995 remain uncertain. We will keep you informed of developments. - 2 - Keith D. Lawson Associate Counsel - Tax