

MEMO# 9303

October 6, 1997

CONGRESSIONAL CORRESPONDENCE ON CAPITAL GAINS CHANGES

[9303] October 6, 1997 TO: TAX COMMITTEE No. 33-97 ACCOUNTING/TREASURERS
COMMITTEE No. 37-97 RE: CONGRESSIONAL CORRESPONDENCE ON CAPITAL GAINS
CHANGES

Since enactment of the Taxpayer Relief Act of 1997 ("the 1997 Act"), several questions have arisen regarding the taxation of capital gains. In response to these questions, and as part of an effort to clarify how the capital gains rules will be applied during 1997, the attached letters were exchanged between the Treasury Department and the ranking majority and minority members of the House Ways and Means and Senate Finance Committees. According to the Treasury Department's letter, the staffs of the tax-writing committees and the Treasury Department have reached agreement on legislative language making "technical corrections" to the capital gains rules. "A clear expression of Congressional intent that these technical corrections will be adopted is necessary," according to the letter, "to allow the Internal Revenue Service to prepare its forms for the 1998 filing season expeditiously and correctly." The Congressional leaders' response is intended to "provide sufficient guidance so that the preparation of the tax forms for 1997 can go forward on schedule." According to the leaders' response, bipartisan technical corrections legislation (effective as if included originally in the Act) will be introduced and enacted at the earliest opportunity. Among other things, the letter indicates an intention "that capital transactions involving holding periods of more than one year ('long-term') be grouped by tax rates, and losses for each long-term tax-rate group be used to offset gains within the group. If a long-term tax-rate group has a net loss, then the loss will be used first to offset net gain for the highest long-term tax-rate group, then to offset the next highest long-term tax-rate group and so on." The Treasury Department is expected to release promptly capital gains guidance, including a revised Schedule D for reporting capital gains and losses, that will implement this expression of Congressional intent. Keith D. Lawson Associate Counsel - Tax Attachments