

MEMO# 1356

August 17, 1989

SPECIAL MEETING REGARDING INDEXATION OF CAPITAL GAINS

August 17, 1989 TO: TAX COMMITTEE NO. 13-89 ACCOUNTING/TREASURERS COMMITTEE
NO. 34-89 RE: SPECIAL MEETING REGARDING INDEXATION OF CAPITAL GAINS

As you know, recent negotiations over the Administration's proposal to reduce the tax rate applicable to capital gains have produced a number of proposals that would provide for indexation of equity securities and certain other capital assets. There is the possibility that an indexing provision will be included in any tax legislation considered by Congress this year. Indexation raises particular issues for mutual funds and other pass-through entities. This spring, the Institute filed the attached comments with the House Ways and Means Committee which addressed issues relating to indexing by both fund shareholders and funds themselves. The comments noted the complexities created for a shareholder attempting to index different blocks of fund shares acquired on different dates on the basis of different inflation adjustment factors. The comments also noted the fact that shares of many mutual funds will not be fully indexable since the funds own both equity securities (which would be indexed) and debt securities (which would not be indexed), and suggested provisions designed to simplify the necessary computations. The most recent indexing proposals under discussion include new features that would create additional complexity. For example, indexing might apply only to assets owned by individuals, and not by corporations, creating problems for funds with both types of shareholders. Other problems would arise from provisions: applying indexing only to assets acquired after a specified future date; denying indexing for assets held less than one year; and denying indexing for assets the sale of which results in losses. Although no formal legislative language has yet been released, the Institute's staff, a subcommittee of the Tax Committee and outside tax counsel to the Institute have been working to identify issues and to develop possible solutions. In order to discuss these issues and to obtain your views, a special meeting of the Tax and Accounting-Treasurers Committees has been scheduled for 2:00 p.m. on Tuesday, August 29th at the Capital Hilton located at 1001 K Street, N.W., Washington, D.C. Lunch will be available at 1:00 p.m. Please contact Betsy Teter at (202) 955-3529 by Friday, August 25th, if you will attend this meeting. We look forward to seeing you on August 29th. Matthew P. Fink Senior Vice President and General Counsel Attachment