

MEMO# 10309

September 22, 1998

WAYS AND MEANS COMMITTEE APPROVES BILL CONTAINING CAPITAL GAINS TECHNICAL CORRECTIONS

1 See Memorandum to Board of Governors No. 46-98, Federal Legislation Members No. 16-98, Primary Contacts-Member Complex No. 64-98 and Public Information Committee No. 29-98, dated July 17, 1998. [10309] September 22, 1998 TO: BOARD OF GOVERNORS No. 58-98 FEDERAL LEGISLATION MEMBERS No. 22-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 78-98 PUBLIC INFORMATION COMMITTEE No. 40-98 RE: WAYS AND MEANS COMMITTEE APPROVES BILL CONTAINING CAPITAL GAINS TECHNICAL CORRECTIONS

On September 17, the House Ways and Means Committee approved H.R. 4579, the "Taxpayer Relief Act of 1998." The bill includes a technical correction relating to the tax treatment of capital gains distributions to mutual fund shareholders. In a law enacted this summer,¹ the Congress reduced the top rate on most long-term capital gains from 28 to 20 percent, effective for assets disposed of after December 31, 1997. For mutual funds, the effective date relates only to assets sold by the fund after December 31, 1997. Consequently, under the new law, some of the gains realized by a mutual fund in November and December 1997, but distributed to shareholders in 1998, would be taxed at a 28 percent rate. Congress did not intend that gains received by mutual fund shareholders in 1998 be subject to a 28 percent rate. The bill approved by the Ways and Means Committee includes a technical correction that generally would apply the effective date of the capital gains reduction to when the mutual fund shareholder received the distribution. Thus, long-term capital gains received by mutual fund shareholders in 1998 would not be taxed at a 28 percent rate. The bill also contains many other tax provisions. Among these is one that would provide individuals with an exclusion from income for up to \$200 of combined dividends and interest income received in a taxable year (\$400 for married couples filing jointly). This proposal would be effective for taxable years beginning after December 31, 1998. The full House is expected to approve the measure at the end of September. Prospects for Senate action are unclear. President Clinton has indicated he plans to veto the legislation in its current form, but it is possible that certain provisions of H.R. 4579, including the capital gains technical corrections, may be enacted in other legislation. We will keep you informed as this matter progresses. Matthew P. Fink President