

MEMO# 2911

July 26, 1991

TAX SIMPLIFICATION LEGISLATION INCLUDES PFIC PROVISION

July 22, 1991 TO: FEDERAL LEGISLATION MEMBERS NO. 11-91 FEDERAL LEGISLATION
COMMITTEE NO. 12-91 RE: TAX SIMPLIFICATION LEGISLATION INCLUDES PFIC PROVISION

House Ways and Means

Committee Chairman Dan Rostenkowski and Senate Finance Committee Chairman Lloyd Bentsen jointly have introduced a comprehensive tax simplification bill. The legislation, H.R. 2777/S. 1364, includes provisions to address the problem of computing taxes on holdings of passive foreign investment companies. The legislation essentially reflects the Institute's recommendations that mutual funds be permitted to elect to mark- to-market their PFIC investments each year, i.e., treating them as being sold as of the last day of the fund's taxable year. This change would eliminate the substantial burden of continually recomputing the fund's potential tax liability for its PFIC shares. If passed the bill would be effective for taxable years beginning after December 31, 1991. The legislation also includes a provision to simplify the foreign tax credit limitation for individuals. The Institute will testify at hearings on the bill scheduled for July 23 and 24 by the House Committee on Ways and Means. Copies of the relevant sections of the bill's explanation have been attached for your review. We will keep you informed of further developments. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs, Washington Update. Julie Domenick Vice President Legislative Affairs

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