

108TH CONGRESS
1ST SESSION

H. R. 1989

To amend the Internal Revenue Code of 1986 to allow individuals to defer recognition of reinvested capital gains distributions from regulated investment companies.

IN THE HOUSE OF REPRESENTATIVES

MAY 6, 2003

Mr. RYAN of Wisconsin (for himself and Mr. SAXTON) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to allow individuals to defer recognition of reinvested capital gains distributions from regulated investment companies.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION. 1. DEFERRAL OF REINVESTED CAPITAL GAIN**
4 **DIVIDENDS OF REGULATED INVESTMENT**
5 **COMPANIES.**

6 (a) IN GENERAL.—Part III of subchapter O of chap-
7 ter 1 of the Internal Revenue Code of 1986 (relating to
8 common nontaxable exchanges) is amended by inserting
9 after section 1045 the following new section:

1 **“SEC. 1046. REINVESTED CAPITAL GAIN DIVIDENDS OF**
2 **REGULATED INVESTMENT COMPANIES.**

3 “(a) NONRECOGNITION OF GAIN.—In the case of an
4 individual, no gain shall be recognized on the receipt of
5 a capital gain dividend distributed by a regulated invest-
6 ment company to which part I of subchapter M applies
7 if such capital gain dividend is automatically reinvested
8 in additional shares of the company pursuant to a dividend
9 reinvestment plan.

10 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-
11 poses of this section—

12 “(1) CAPITAL GAIN DIVIDEND.—The term ‘cap-
13 ital gain dividend’ has the meaning given to such
14 term by section 852(b)(3)(C).

15 “(2) RECOGNITION OF DEFERRED CAPITAL
16 GAIN DIVIDENDS.—

17 “(A) IN GENERAL.—Gain treated as unrec-
18 ognized in accordance with subsection (a) shall
19 be recognized in accordance with subparagraph
20 (B) upon a subsequent sale or redemption by
21 such individual of stock in the distributing com-
22 pany.

23 “(B) GAIN RECOGNITION.—Upon a sale or
24 redemption described in subparagraph (A), the
25 taxpayer shall recognize that portion of total
26 gain treated as unrecognized in accordance with

subsection (a) (and not previously recognized pursuant to this subparagraph) that is equivalent to the portion of the taxpayer's shares in the distributing company that are sold or redeemed.

“(3) HOLDING PERIOD.—

“(A) GENERAL RULE.—The taxpayer's holding period in shares acquired through reinvestment of a capital gain dividend to which subsection (a) applies shall be determined by treating the shareholder as having held such shares for one year and a day as of the date such shares are acquired.

“(B) SPECIAL RULE FOR DISTRIBUTIONS OF QUALIFIED 5-YEAR GAINS.—In the case of a capital gain dividend (or portion thereof) properly treated as qualified 5-year gain (within the meaning of section 1(h)(9)), subparagraph (A) shall apply by substituting ‘5 years and a day’ for ‘one year and a day.’

“(c) SECTION NOT TO APPLY TO CERTAIN TAXPAYERS.—This section shall not apply to—

“(1) an individual with respect to whom a deduction under section 151 is allowable to another taxpayer for a taxable year beginning in the cal-

1 endar year in which such individual's taxable year
2 begins, or

3 “(2) an estate or trust.”

4 (b) CONFORMING AMENDMENTS.—

5 (1) Section 852(b)(3)(B) of such Code is
6 amended by adding at the end the following new
7 sentence: “For rules regarding nonrecognition of
8 gain with respect to reinvested capital gain dividends
9 received by individuals, see section 1046.”

10 (2) The table of sections for part III of sub-
11 chapter O of chapter 1 of such Code is amended by
12 inserting after the item relating to section 1045 the
13 following new item:

 “Sec. 1046. Reinvested capital gain dividends of regulated investment com-
 panies.”

14 (c) EFFECTIVE DATE.—The amendments made by
15 this section shall apply to taxable years ending after the
16 date of the enactment of this Act.

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