

111TH CONGRESS
2D SESSION

S. 3948

To amend the Internal Revenue Code of 1986 to modify certain rules applicable to regulated investment companies, and for other purposes.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 17, 2010

Mr. BINGAMAN (for himself, Mr. CRAPO, and Mr. KERRY) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to modify certain rules applicable to regulated investment companies, and for other purposes.

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. SHORT TITLE, ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Regulated Investment Company Modernization Act of
6 2010”.

7 (b) REFERENCE.—Except as otherwise expressly pro-
8 vided, whenever in this Act an amendment or repeal is
9 expressed in terms of an amendment to, or repeal of, a
10 section or other provision, the reference shall be consid-

1 ered to be made to a section or other provision of the In-
 2 ternal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 this Act is as follows:

Sec. 1. Short title, etc.

TITLE I—CAPITAL LOSS CARRYOVERS OF REGULATED INVESTMENT COMPANIES

Sec. 101. Capital loss carryovers of regulated investment companies.

TITLE II—MODIFICATION OF GROSS INCOME AND ASSET TESTS OF REGULATED INVESTMENT COMPANIES

Sec. 201. Income from commodities counted toward gross income test of regulated investment companies.

Sec. 202. Savings provisions for failures of regulated investment companies to satisfy gross income and asset tests.

TITLE III—MODIFICATION OF RULES RELATED TO DIVIDENDS AND OTHER DISTRIBUTIONS

Sec. 301. Modification of dividend designation requirements and allocation rules for regulated investment companies.

Sec. 302. Earnings and profits of regulated investment companies.

Sec. 303. Pass-thru of exempt-interest dividends and foreign tax credits in fund of funds structure.

Sec. 304. Modification of rules for spillover dividends of regulated investment companies.

Sec. 305. Return of capital distributions of regulated investment companies.

Sec. 306. Distributions in redemption of stock of a regulated investment company.

Sec. 307. Repeal of preferential dividend rule for publicly offered regulated investment companies.

Sec. 308. Elective deferral of certain late-year losses of regulated investment companies.

Sec. 309. Exception to holding period requirement for certain regularly declared exempt-interest dividends.

TITLE IV—MODIFICATIONS RELATED TO EXCISE TAX APPLICABLE TO REGULATED INVESTMENT COMPANIES

Sec. 401. Excise tax exemption for certain regulated investment companies owned by tax exempt entities.

Sec. 402. Deferral of certain gains and losses of regulated investment companies for excise tax purposes.

Sec. 403. Distributed amount for excise tax purposes determined on basis of taxes paid by regulated investment company.

Sec. 404. Increase in required distribution of capital gain net income.

TITLE V—OTHER PROVISIONS

Sec. 501. Repeal of assessable penalty with respect to liability for tax of regulated investment companies.

Sec. 502. Modification of sales load basis deferral rule for regulated investment companies.

1 **TITLE I—CAPITAL LOSS**
 2 **CARRYOVERS OF REGULATED**
 3 **INVESTMENT COMPANIES**

4 **SEC. 101. CAPITAL LOSS CARRYOVERS OF REGULATED IN-**
 5 **VESTMENT COMPANIES.**

6 (a) IN GENERAL.—Subsection (a) of section 1212 is
 7 amended by redesignating paragraph (3) as paragraph (4)
 8 and by inserting after paragraph (2) the following new
 9 paragraph:

10 “(3) REGULATED INVESTMENT COMPANIES.—

11 “(A) IN GENERAL.—If a regulated invest-
 12 ment company has a net capital loss for any
 13 taxable year—

14 “(i) paragraph (1) shall not apply to
 15 such loss,

16 “(ii) the excess of the net short-term
 17 capital loss over the net long-term capital
 18 gain for such year shall be a short-term
 19 capital loss arising on the first day of the
 20 next taxable year, and

21 “(iii) the excess of the net long-term
 22 capital loss over the net short-term capital
 23 gain for such year shall be a long-term

1 capital loss arising on the first day of the
 2 next taxable year.

3 “(B) COORDINATION WITH GENERAL
 4 RULE.—If a net capital loss to which paragraph
 5 (1) applies is carried over to a taxable year of
 6 a regulated investment company—

7 “(i) LOSSES TO WHICH THIS PARA-
 8 GRAPH APPLIES.—Clauses (ii) and (iii) of
 9 subparagraph (A) shall be applied without
 10 regard to any amount treated as a short-
 11 term capital loss under paragraph (1).

12 “(ii) LOSSES TO WHICH GENERAL
 13 RULE APPLIES.—Paragraph (1) shall be
 14 applied by substituting ‘net capital loss for
 15 the loss year or any taxable year thereafter
 16 (other than a net capital loss to which
 17 paragraph (3)(A) applies)’ for ‘net capital
 18 loss for the loss year or any taxable year
 19 thereafter’.”.

20 (b) CONFORMING AMENDMENTS.—

21 (1) Subparagraph (C) of section 1212(a)(1) is
 22 amended to read as follows:

23 “(C) a capital loss carryover to each of the
 24 10 taxable years succeeding the loss year, but

1 only to the extent such loss is attributable to a
2 foreign expropriation loss,”.

3 (2) Paragraph (10) of section 1222 is amended
4 by striking “section 1212” and inserting “section
5 1212(a)(1)”.

6 (c) EFFECTIVE DATE.—

7 (1) IN GENERAL.—Except as provided in para-
8 graph (2), the amendments made by this section
9 shall apply to net capital losses for taxable years be-
10 ginning after the date of the enactment of this Act.

11 (2) COORDINATION RULES.—Subparagraph (B)
12 of section 1212(a)(3) of the Internal Revenue Code
13 of 1986, as added by this section, shall apply to tax-
14 able years beginning after the date of the enactment
15 of this Act.

16 **TITLE II—MODIFICATION OF** 17 **GROSS INCOME AND ASSET** 18 **TESTS OF REGULATED IN-** 19 **VESTMENT COMPANIES**

20 **SEC. 201. INCOME FROM COMMODITIES COUNTED TOWARD** 21 **GROSS INCOME TEST OF REGULATED IN-** 22 **VESTMENT COMPANIES.**

23 (a) GROSS INCOME TEST.—Subparagraph (A) of sec-
24 tion 851(b)(2) is amended—

1 (1) by striking “foreign currencies” and insert-
 2 ing “commodities”, and

3 (2) by striking “or currencies” and inserting
 4 “or commodities”.

5 (b) REPEAL OF REGULATORY AUTHORITY TO EX-
 6 CLUDE CERTAIN FOREIGN CURRENCY GAINS FROM
 7 QUALIFYING INCOME.—Subsection (b) of section 851 is
 8 amended by striking “For purposes of paragraph (2), the
 9 Secretary may by regulation exclude from qualifying in-
 10 come foreign currency gains which are not directly related
 11 to the company’s principal business of investing in stock
 12 or securities (or options and futures with respect to stock
 13 or securities).” in the flush matter after paragraph (3).

14 (c) CONFORMING AMENDMENTS.—

15 (1) Subsection (h) of section 851 is amended by
 16 inserting “(determined by substituting ‘foreign cur-
 17 rencies’ for ‘commodities’ therein)” after “subsection
 18 (b)(2)(A)”.

19 (2) Paragraph (4) of section 7704(d) is amend-
 20 ed by inserting “(determined by substituting ‘foreign
 21 currencies’ for ‘commodities’ therein)” after “section
 22 851(b)(2)(A)”.

23 (d) EFFECTIVE DATE.—The amendments made by
 24 this section shall apply to taxable years beginning after
 25 the date of the enactment of this Act.

1 **SEC. 202. SAVINGS PROVISIONS FOR FAILURES OF REGU-**
 2 **LATED INVESTMENT COMPANIES TO SATISFY**
 3 **GROSS INCOME AND ASSET TESTS.**

4 (a) ASSET TEST.—Subsection (d) of section 851 is
 5 amended—

6 (1) by striking “A corporation which meets”
 7 and inserting the following:

8 “(1) IN GENERAL.—A corporation which
 9 meets”, and

10 (2) by adding at the end the following new
 11 paragraph:

12 “(2) SPECIAL RULES REGARDING FAILURE TO
 13 SATISFY REQUIREMENTS.—If paragraph (1) does
 14 not preserve a corporation’s status as a regulated in-
 15 vestment company for any particular quarter—

16 “(A) IN GENERAL.—A corporation that
 17 fails to meet the requirements of subsection
 18 (b)(3) (other than a failure described in sub-
 19 paragraph (B)(i)) for such quarter shall never-
 20 theless be considered to have satisfied the re-
 21 quirements of such subsection for such quarter
 22 if—

23 “(i) following the corporation’s identi-
 24 fication of the failure to satisfy the re-
 25 quirements of such subsection for such
 26 quarter, a description of each asset that

causes the corporation to fail to satisfy the requirements of such subsection at the close of such quarter is set forth in a schedule for such quarter filed in the manner provided by the Secretary,

“(ii) the failure to meet the requirements of such subsection for such quarter is due to reasonable cause and not due to willful neglect, and

“(iii)(I) the corporation disposes of the assets set forth on the schedule specified in clause (i) within 6 months after the last day of the quarter in which the corporation’s identification of the failure to satisfy the requirements of such subsection occurred or such other time period prescribed by the Secretary and in the manner prescribed by the Secretary, or

“(II) the requirements of such subsection are otherwise met within the time period specified in subclause (I).

“(B) RULE FOR CERTAIN DE MINIMIS FAILURES.—A corporation that fails to meet the requirements of subsection (b)(3) for such quarter shall nevertheless be considered to have

1 satisfied the requirements of such subsection
2 for such quarter if—

3 “(i) such failure is due to the owner-
4 ship of assets the total value of which does
5 not exceed the lesser of—

6 “(I) 1 percent of the total value
7 of the corporation’s assets at the end
8 of the quarter for which such meas-
9 urement is done, or

10 “(II) \$10,000,000, and

11 “(ii)(I) the corporation, following the
12 identification of such failure, disposes of
13 assets in order to meet the requirements of
14 such subsection within 6 months after the
15 last day of the quarter in which the cor-
16 poration’s identification of the failure to
17 satisfy the requirements of such subsection
18 occurred or such other time period pre-
19 scribed by the Secretary and in the manner
20 prescribed by the Secretary, or

21 “(II) the requirements of such sub-
22 section are otherwise met within the time
23 period specified in subclause (I).

24 “(C) TAX.—

1 “(i) TAX IMPOSED.—If subparagraph
2 (A) applies to a corporation for any quar-
3 ter, there is hereby imposed on such cor-
4 poration a tax in an amount equal to the
5 greater of—

6 “(I) \$50,000, or

7 “(II) the amount determined
8 (pursuant to regulations promulgated
9 by the Secretary) by multiplying the
10 net income generated by the assets
11 described in the schedule specified in
12 subparagraph (A)(i) for the period
13 specified in clause (ii) by the highest
14 rate of tax specified in section 11.

15 “(ii) PERIOD.—For purposes of clause
16 (i)(II), the period described in this clause
17 is the period beginning on the first date
18 that the failure to satisfy the requirements
19 of subsection (b)(3) occurs as a result of
20 the ownership of such assets and ending on
21 the earlier of the date on which the cor-
22 poration disposes of such assets or the end
23 of the first quarter when there is no longer
24 a failure to satisfy such subsection.

1 “(iii) ADMINISTRATIVE PROVISIONS.—

2 For purposes of subtitle F, a tax imposed
 3 by this subparagraph shall be treated as
 4 an excise tax with respect to which the de-
 5 ficiency procedures of such subtitle
 6 apply.”.

7 (b) GROSS INCOME TEST.—Section 851 is amended
 8 by adding at the end the following new subsection:

9 “(i) FAILURE TO SATISFY GROSS INCOME TEST.—

10 “(1) DISCLOSURE REQUIREMENT.—A corpora-
 11 tion that fails to meet the requirement of paragraph
 12 (2) of subsection (b) for any taxable year shall nev-
 13 ertheless be considered to have satisfied the require-
 14 ment of such paragraph for such taxable year if—

15 “(A) following the corporation’s identifica-
 16 tion of the failure to meet such requirement for
 17 such taxable year, a description of each item of
 18 its gross income described in such paragraph is
 19 set forth in a schedule for such taxable year
 20 filed in the manner provided by the Secretary,
 21 and

22 “(B) the failure to meet such requirement
 23 is due to reasonable cause and not due to will-
 24 ful neglect.

1 “(2) IMPOSITION OF TAX ON FAILURES.—If
 2 paragraph (1) applies to a regulated investment
 3 company for any taxable year, there is hereby im-
 4 posed on such company a tax in an amount equal to
 5 the excess of—

6 “(A) the gross income of such company
 7 which is not derived from sources referred to in
 8 subsection (b)(2), over

9 “(B) $\frac{1}{9}$ of the gross income of such com-
 10 pany which is derived from such sources.”.

11 (c) DEDUCTION OF TAXES PAID FROM INVESTMENT
 12 COMPANY TAXABLE INCOME.—Paragraph (2) of section
 13 852(b) is amended by adding at the end the following new
 14 subparagraph:

15 “(G) There shall be deducted an amount
 16 equal to the tax imposed by subsections (d)(2)
 17 and (i) of section 851 for the taxable year.”.

18 (d) EFFECTIVE DATE.—The amendments made by
 19 this section shall apply to taxable years with respect to
 20 which the due date (determined with regard to any exten-
 21 sions) of the return of tax for such taxable year is after
 22 the date of the enactment of this Act.

1 **TITLE III—MODIFICATION OF**
 2 **RULES RELATED TO DIVI-**
 3 **DENDS AND OTHER DIS-**
 4 **TRIBUTIONS**

5 **SEC. 301. MODIFICATION OF DIVIDEND DESIGNATION RE-**
 6 **QUIREMENTS AND ALLOCATION RULES FOR**
 7 **REGULATED INVESTMENT COMPANIES.**

8 (a) CAPITAL GAIN DIVIDENDS.—

9 (1) IN GENERAL.—Subparagraph (C) of section
 10 852(b)(3) is amended to read as follows:

11 “(C) DEFINITION OF CAPITAL GAIN DIVI-
 12 DEND.—For purposes of this part—

13 “(i) IN GENERAL.—Except as pro-
 14 vided in clause (ii), a capital gain dividend
 15 is any dividend, or part thereof, which is
 16 reported by the company as a capital gain
 17 dividend in written statements furnished to
 18 its shareholders.

19 “(ii) EXCESS REPORTED AMOUNTS.—
 20 If the aggregate reported amount with re-
 21 spect to the company for any taxable year
 22 exceeds the net capital gain of the com-
 23 pany for such taxable year, a capital gain
 24 dividend is the excess of—

1 “(I) the reported capital gain div-
2 idend amount, over

3 “(II) the excess reported amount
4 which is allocable to such reported
5 capital gain dividend amount.

6 “(iii) ALLOCATION OF EXCESS RE-
7 PORTED AMOUNT.—

8 “(I) IN GENERAL.—Except as
9 provided in subclause (II), the excess
10 reported amount (if any) which is al-
11 locable to the reported capital gain
12 dividend amount is that portion of the
13 excess reported amount which bears
14 the same ratio to the excess reported
15 amount as the reported capital gain
16 dividend amount bears to the aggre-
17 gate reported amount.

18 “(II) SPECIAL RULE FOR NON-
19 CALENDAR YEAR TAXPAYERS.—In the
20 case of any taxable year which does
21 not begin and end in the same cal-
22 endar year, if the post-December re-
23 ported amount equals or exceeds the
24 excess reported amount for such tax-
25 able year, subclause (I) shall be ap-

plied by substituting ‘post-December reported amount’ for ‘aggregate reported amount’ and no excess reported amount shall be allocated to any dividend paid on or before December 31 of such taxable year.

“(iv) DEFINITIONS.—For purposes of this subparagraph—

“(I) REPORTED CAPITAL GAIN DIVIDEND AMOUNT.—The term ‘reported capital gain dividend amount’ means the amount reported to its shareholders under clause (i) as a capital gain dividend.

“(II) EXCESS REPORTED AMOUNT.—The term ‘excess reported amount’ means the excess of the aggregate reported amount over the net capital gain of the company for the taxable year.

“(III) AGGREGATE REPORTED AMOUNT.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the company under clause (i) as capital

1 gain dividends for the taxable year
2 (including capital gain dividends paid
3 after the close of the taxable year de-
4 scribed in section 855).

5 “(IV) POST-DECEMBER RE-
6 PORTED AMOUNT.—The term ‘post-
7 December reported amount’ means
8 the aggregate reported amount deter-
9 mined by taking into account only
10 dividends paid after December 31 of
11 the taxable year.

12 “(v) ADJUSTMENT FOR DETERMINA-
13 TIONS.—If there is an increase in the ex-
14 cess described in subparagraph (A) for the
15 taxable year which results from a deter-
16 mination (as defined in section 860(e)),
17 the company may, subject to the limita-
18 tions of this subparagraph, increase the
19 amount of capital gain dividends reported
20 under clause (i).

21 “(vi) SPECIAL RULE FOR LOSSES
22 LATE IN THE CALENDAR YEAR.—For spe-
23 cial rule for certain losses after October
24 31, see paragraph (8).”.

1 (2) CONFORMING AMENDMENT.—Subparagraph
 2 (B) of section 860(f)(2) is amended by inserting “or
 3 reported (as the case may be)” after “designated”.

4 (b) EXEMPT-INTEREST DIVIDENDS.—Subparagraph
 5 (A) of section 852(b)(5) is amended to read as follows:

6 “(A) DEFINITION OF EXEMPT-INTEREST
 7 DIVIDEND.—

8 “(i) IN GENERAL.—Except as pro-
 9 vided in clause (ii), an exempt-interest divi-
 10 dend is any dividend or part thereof (other
 11 than a capital gain dividend) paid by a
 12 regulated investment company and re-
 13 ported by the company as an exempt-inter-
 14 est dividend in written statements fur-
 15 nished to its shareholders.

16 “(ii) EXCESS REPORTED AMOUNTS.—
 17 If the aggregate reported amount with re-
 18 spect to the company for any taxable year
 19 exceeds the exempt interest of the company
 20 for such taxable year, an exempt-interest
 21 dividend is the excess of—

22 “(I) the reported exempt-interest
 23 dividend amount, over

1 “(II) the excess reported amount
 2 which is allocable to such reported ex-
 3 empt-interest dividend amount.

4 “(iii) ALLOCATION OF EXCESS RE-
 5 PORTED AMOUNT.—

6 “(I) IN GENERAL.—Except as
 7 provided in subclause (II), the excess
 8 reported amount (if any) which is al-
 9 locable to the reported exempt-interest
 10 dividend amount is that portion of the
 11 excess reported amount which bears
 12 the same ratio to the excess reported
 13 amount as the reported exempt-inter-
 14 est dividend amount bears to the ag-
 15 gregate reported amount.

16 “(II) SPECIAL RULE FOR NON-
 17 CALENDAR YEAR TAXPAYERS.—In the
 18 case of any taxable year which does
 19 not begin and end in the same cal-
 20 endar year, if the post-December re-
 21 ported amount equals or exceeds the
 22 excess reported amount for such tax-
 23 able year, subclause (I) shall be ap-
 24 plied by substituting ‘post-December
 25 reported amount’ for ‘aggregate re-

ported amount’ and no excess reported amount shall be allocated to any dividend paid on or before December 31 of such taxable year.

“(iv) DEFINITIONS.—For purposes of this subparagraph—

“(I) REPORTED EXEMPT-INTEREST DIVIDEND AMOUNT.—The term ‘reported exempt-interest dividend amount’ means the amount reported to its shareholders under clause (i) as an exempt-interest dividend.

“(II) EXCESS REPORTED AMOUNT.—The term ‘excess reported amount’ means the excess of the aggregate reported amount over the exempt interest of the company for the taxable year.

“(III) AGGREGATE REPORTED AMOUNT.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the company under clause (i) as exempt-interest dividends for the taxable year (including exempt-interest dividends

1 paid after the close of the taxable year
2 described in section 855).

3 “(IV) POST-DECEMBER RE-
4 REPORTED AMOUNT.—The term ‘post-
5 December reported amount’ means
6 the aggregate reported amount deter-
7 mined by taking into account only
8 dividends paid after December 31 of
9 the taxable year.

10 “(V) EXEMPT INTEREST.—The
11 term ‘exempt interest’ means, with re-
12 spect to any regulated investment
13 company, the excess of the amount of
14 interest excludable from gross income
15 under section 103(a) over the
16 amounts disallowed as deductions
17 under sections 265 and 171(a)(2).”.

18 (c) FOREIGN TAX CREDITS.—

19 (1) IN GENERAL.—Subsection (c) of section
20 853 is amended—

21 (A) by striking “so designated by the com-
22 pany in a written notice mailed to its share-
23 holders not later than 60 days after the close
24 of the taxable year” and inserting “so reported

1 by the company in a written statement fur-
 2 nished to such shareholder”, and

3 (B) by striking “NOTICE” in the heading
 4 and inserting “STATEMENTS”.

5 (2) CONFORMING AMENDMENTS.—Subsection
 6 (d) of section 853 is amended—

7 (A) by striking “and the notice to share-
 8 holders required by subsection (c)” in the text
 9 thereof, and

10 (B) by striking “AND NOTIFYING SHARE-
 11 HOLDERS” in the heading thereof.

12 (d) CREDITS FOR TAX CREDIT BONDS.—

13 (1) IN GENERAL.—Subsection (c) of section
 14 853A is amended—

15 (A) by striking “so designated by the regu-
 16 lated investment company in a written notice
 17 mailed to its shareholders not later than 60
 18 days after the close of its taxable year” and in-
 19 serting “so reported by the regulated invest-
 20 ment company in a written statement furnished
 21 to such shareholder”, and

22 (B) by striking “NOTICE” in the heading
 23 and inserting “STATEMENTS”.

24 (2) CONFORMING AMENDMENTS.—Subsection
 25 (d) of section 853A is amended—

1 (A) by striking “and the notice to share-
 2 holders required by subsection (c)” in the text
 3 thereof, and

4 (B) by striking “AND NOTIFYING SHARE-
 5 HOLDERS” in the heading thereof.

6 (e) DIVIDEND RECEIVED DEDUCTION, ETC.—

7 (1) IN GENERAL.—Paragraph (1) of section
 8 854(b) is amended—

9 (A) by striking “designated under this sub-
 10 paragraph by the regulated investment com-
 11 pany” in subparagraph (A) and inserting “re-
 12 ported by the regulated investment company as
 13 eligible for such deduction in written statements
 14 furnished to its shareholders”,

15 (B) by striking “designated by the regu-
 16 lated investment company” in subparagraph
 17 (B)(i) and inserting “reported by the regulated
 18 investment company as qualified dividend in-
 19 come in written statements furnished to its
 20 shareholders”,

21 (C) by striking “designated” in subpara-
 22 graph (C)(i) and inserting “reported”, and

23 (D) by striking “designated” in subpara-
 24 graph (C)(ii) and inserting “reported”.

1 (2) CONFORMING AMENDMENTS.—Subsection
 2 (b) of section 854 is amended by striking paragraph
 3 (2) and by redesignating paragraphs (3), (4), and
 4 (5), as paragraphs (2), (3), and (4), respectively.

5 (f) DIVIDENDS PAID TO CERTAIN FOREIGN PER-
 6 SONS.—

7 (1) INTEREST-RELATED DIVIDENDS.—Subpara-
 8 graph (C) of section 871(k)(1) is amended by strik-
 9 ing all that precedes “any taxable year of the com-
 10 pany beginning” and inserting the following:

11 “(C) INTEREST-RELATED DIVIDEND.—For
 12 purposes of this paragraph—

13 “(i) IN GENERAL.—Except as pro-
 14 vided in clause (ii), an interest related divi-
 15 dend is any dividend, or part thereof,
 16 which is reported by the company as an in-
 17 terest related dividend in written state-
 18 ments furnished to its shareholders.

19 “(ii) EXCESS REPORTED AMOUNTS.—
 20 If the aggregate reported amount with re-
 21 spect to the company for any taxable year
 22 exceeds the qualified net interest income of
 23 the company for such taxable year, an in-
 24 terest related dividend is the excess of—

1 “(I) the reported interest related
2 dividend amount, over

3 “(II) the excess reported amount
4 which is allocable to such reported in-
5 terest related dividend amount.

6 “(iii) ALLOCATION OF EXCESS RE-
7 PORTED AMOUNT.—

8 “(I) IN GENERAL.—Except as
9 provided in subclause (II), the excess
10 reported amount (if any) which is al-
11 locable to the reported interest related
12 dividend amount is that portion of the
13 excess reported amount which bears
14 the same ratio to the excess reported
15 amount as the reported interest re-
16 lated dividend amount bears to the
17 aggregate reported amount.

18 “(II) SPECIAL RULE FOR NON-
19 CALENDAR YEAR TAXPAYERS.—In the
20 case of any taxable year which does
21 not begin and end in the same cal-
22 endar year, if the post-December re-
23 ported amount equals or exceeds the
24 excess reported amount for such tax-
25 able year, subclause (I) shall be ap-

plied by substituting ‘post-December reported amount’ for ‘aggregate reported amount’ and no excess reported amount shall be allocated to any dividend paid on or before December 31 of such taxable year.

“(iv) DEFINITIONS.—For purposes of this subparagraph—

“(I) REPORTED INTEREST RELATED DIVIDEND AMOUNT.—The term ‘reported interest related dividend amount’ means the amount reported to its shareholders under clause (i) as an interest related dividend.

“(II) EXCESS REPORTED AMOUNT.—The term ‘excess reported amount’ means the excess of the aggregate reported amount over the qualified net interest income of the company for the taxable year.

“(III) AGGREGATE REPORTED AMOUNT.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the

company under clause (i) as interest related dividends for the taxable year (including interest related dividends paid after the close of the taxable year described in section 855).

“(IV) POST-DECEMBER REPORTED AMOUNT.—The term ‘post-December reported amount’ means the aggregate reported amount determined by taking into account only dividends paid after December 31 of the taxable year.

“(v) TERMINATION.—The term ‘interest related dividend’ shall not include any dividend with respect to”.

(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—Subparagraph (C) of section 871(k)(2) is amended by striking all that precedes “any taxable year of the company beginning” and inserting the following:

“(C) SHORT-TERM CAPITAL GAIN DIVIDEND.—For purposes of this paragraph—

“(i) IN GENERAL.—Except as provided in clause (ii), the term ‘short-term capital gain dividend’ means any dividend, or part thereof, which is reported by the

1 company as a short-term capital gain divi-
2 dend in written statements furnished to its
3 shareholders.

4 “(ii) EXCESS REPORTED AMOUNTS.—
5 If the aggregate reported amount with re-
6 spect to the company for any taxable year
7 exceeds the qualified short-term gain of the
8 company for such taxable year, the term
9 ‘short-term capital gain dividend’ means
10 the excess of—

11 “(I) the reported short-term cap-
12 ital gain dividend amount, over

13 “(II) the excess reported amount
14 which is allocable to such reported
15 short-term capital gain dividend
16 amount.

17 “(iii) ALLOCATION OF EXCESS RE-
18 PORTED AMOUNT.—

19 “(I) IN GENERAL.—Except as
20 provided in subclause (II), the excess
21 reported amount (if any) which is al-
22 locable to the reported short-term cap-
23 ital gain dividend amount is that por-
24 tion of the excess reported amount
25 which bears the same ratio to the ex-

cess reported amount as the reported short-term capital gain dividend amount bears to the aggregate reported amount.

“(II) SPECIAL RULE FOR NON-CALENDAR YEAR TAXPAYERS.—In the case of any taxable year which does not begin and end in the same calendar year, if the post-December reported amount equals or exceeds the excess reported amount for such taxable year, subclause (I) shall be applied by substituting ‘post-December reported amount’ for ‘aggregate reported amount’ and no excess reported amount shall be allocated to any dividend paid on or before December 31 of such taxable year.

“(iv) DEFINITIONS.—For purposes of this subparagraph—

“(I) REPORTED SHORT-TERM CAPITAL GAIN DIVIDEND AMOUNT.—The term ‘reported short-term capital gain dividend amount’ means the amount reported to its shareholders

1 under clause (i) as a short-term cap-
2 ital gain dividend.

3 “(II) EXCESS REPORTED
4 AMOUNT.—The term ‘excess reported
5 amount’ means the excess of the ag-
6 gregate reported amount over the
7 qualified short-term gain of the com-
8 pany for the taxable year.

9 “(III) AGGREGATE REPORTED
10 AMOUNT.—The term ‘aggregate re-
11 ported amount’ means the aggregate
12 amount of dividends reported by the
13 company under clause (i) as short-
14 term capital gain dividends for the
15 taxable year (including short-term
16 capital gain dividends paid after the
17 close of the taxable year described in
18 section 855).

19 “(IV) POST-DECEMBER RE-
20 PORTED AMOUNT.—The term ‘post-
21 December reported amount’ means
22 the aggregate reported amount deter-
23 mined by taking into account only
24 dividends paid after December 31 of
25 the taxable year.

1 “(v) TERMINATION.—The term ‘short-
 2 term capital gain dividend’ shall not in-
 3 clude any dividend with respect to”.

4 (g) CONFORMING AMENDMENTS.—Section 855 is
 5 amended—

6 (1) by striking subsection (c) and redesignating
 7 subsection (d) as subsection (c), and

8 (2) by striking “, (c) and (d)” in subsection (a)
 9 and inserting “and (c)”.

10 (h) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to taxable years beginning after
 12 the date of the enactment of this Act.

13 (i) APPLICATION OF JGTRRA SUNSET.—Section
 14 303 of the Jobs and Growth Tax Relief Reconciliation Act
 15 of 2003 shall apply to the amendments made by subpara-
 16 graphs (B) and (D) of subsection (e)(1) to the same extent
 17 and in the same manner as section 303 of such Act applies
 18 to the amendments made by section 302 of such Act.

19 **SEC. 302. EARNINGS AND PROFITS OF REGULATED INVEST-**
 20 **MENT COMPANIES.**

21 (a) IN GENERAL.—Paragraph (1) of section 852(c)
 22 is amended to read as follows:

23 “(1) TREATMENT OF NONDEDUCTIBLE
 24 ITEMS.—

“(A) NET CAPITAL LOSS.—If a regulated investment company has a net capital loss for any taxable year—

“(i) such net capital loss shall not be taken into account for purposes of determining the company’s earnings and profits, and

“(ii) any capital loss arising on the first day of the next taxable year by reason of clause (ii) or (iii) of section 1212(a)(3)(A) shall be treated as so arising for purposes of determining earnings and profits.

“(B) OTHER NONDEDUCTIBLE ITEMS.—

“(i) IN GENERAL.—The earnings and profits of a regulated investment company for any taxable year (but not its accumulated earnings and profits) shall not be reduced by any amount which is not allowable as a deduction (other than by reason of section 265 or 171(a)(2)) in computing its taxable income for such taxable year.

“(ii) COORDINATION WITH TREATMENT OF NET CAPITAL LOSSES.—Clause

1 (i) shall not apply to a net capital loss to
 2 which subparagraph (A) applies.”.

3 (b) CONFORMING AMENDMENTS.—

4 (1) Subsection (c) of section 852 is amended by
 5 adding at the end the following new paragraph:

6 “(4) REGULATED INVESTMENT COMPANY.—For
 7 purposes of this subsection, the term ‘regulated in-
 8 vestment company’ includes a domestic corporation
 9 which is a regulated investment company determined
 10 without regard to the requirements of subsection
 11 (a).”.

12 (2) Paragraphs (1)(A) and (2)(A) of section
 13 871(k) are each amended by inserting “which meets
 14 the requirements of section 852(a) for the taxable
 15 year with respect to which the dividend is paid” be-
 16 fore the period at the end.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to taxable years beginning after
 19 the date of the enactment of this Act.

20 **SEC. 303. PASS-THRU OF EXEMPT-INTEREST DIVIDENDS**
 21 **AND FOREIGN TAX CREDITS IN FUND OF**
 22 **FUNDS STRUCTURE.**

23 (a) IN GENERAL.—Section 852 is amended by adding
 24 at the end the following new subsection:

25 “(g) SPECIAL RULES FOR FUND OF FUNDS.—

1 “(1) IN GENERAL.—In the case of a qualified
2 fund of funds—

3 “(A) such fund shall be qualified to pay
4 exempt-interest dividends to its shareholders
5 without regard to whether such fund satisfies
6 the requirements of the first sentence of sub-
7 section (b)(5), and

8 “(B) such fund may elect the application
9 of section 853 (relating to foreign tax credit al-
10 lowed to shareholders) without regard to the re-
11 quirement of subsection (a)(1) thereof.

12 “(2) QUALIFIED FUND OF FUNDS.—For pur-
13 poses of this subsection, the term ‘qualified fund of
14 funds’ means a regulated investment company if (at
15 the close of each quarter of the taxable year) at least
16 50 percent of the value of its total assets is rep-
17 resented by interests in other regulated investment
18 companies.”.

19 (b) EFFECTIVE DATE.—The amendment made by
20 this section shall apply to taxable years beginning after
21 the date of the enactment of this Act.

1 **SEC. 304. MODIFICATION OF RULES FOR SPILLOVER DIVI-**
 2 **DENDS OF REGULATED INVESTMENT COMPA-**
 3 **NIES.**

4 (a) DEADLINE FOR DECLARATION OF DIVIDEND.—
 5 Paragraph (1) of section 855(a) is amended to read as
 6 follows:

7 “(1) declares a dividend before the later of—

8 “(A) the 15th day of the 9th month fol-
 9 lowing the close of the taxable year, or

10 “(B) in the case of an extension of time
 11 for filing the company’s return for the taxable
 12 year, the due date for filing such return taking
 13 into account such extension, and”.

14 (b) DEADLINE FOR DISTRIBUTION OF DIVIDEND.—
 15 Paragraph (2) of section 855(a) is amended by striking
 16 “the first regular dividend payment” and inserting “the
 17 first dividend payment of the same type of dividend”.

18 (c) SHORT-TERM CAPITAL GAIN.—Subsection (a) of
 19 section 855 is amended by adding at the end the following:
 20 “For purposes of paragraph (2), a dividend attributable
 21 to any short-term capital gain with respect to which a no-
 22 tice is required under the Investment Company Act of
 23 1940 shall be treated as the same type of dividend as a
 24 capital gain dividend.”.

1 (d) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to distributions in taxable years
 3 beginning after the date of the enactment of this Act.

4 **SEC. 305. RETURN OF CAPITAL DISTRIBUTIONS OF REGU-**
 5 **LATED INVESTMENT COMPANIES.**

6 (a) IN GENERAL.—Subsection (b) of section 316 is
 7 amended by adding at the end the following new para-
 8 graph:

9 “(4) CERTAIN DISTRIBUTIONS BY REGULATED
 10 INVESTMENT COMPANIES IN EXCESS OF EARNINGS
 11 AND PROFITS.—In the case of a regulated invest-
 12 ment company that has a taxable year other than a
 13 calendar year, if the distributions by the company
 14 with respect to any class of stock of such company
 15 for the taxable year exceed the company’s current
 16 and accumulated earnings and profits which may be
 17 used for the payment of dividends on such class of
 18 stock, the company’s current earnings and profits
 19 shall, for purposes of subsection (a), be allocated
 20 first to distributions with respect to such class of
 21 stock made during the portion of the taxable year
 22 which precedes January 1.”.

23 (b) EFFECTIVE DATE.—The amendment made by
 24 this section shall apply to distributions made in taxable

1 years beginning after the date of the enactment of this
 2 Act.

3 **SEC. 306. DISTRIBUTIONS IN REDEMPTION OF STOCK OF A**
 4 **REGULATED INVESTMENT COMPANY.**

5 (a) REDEMPTIONS TREATED AS EXCHANGES.—

6 (1) IN GENERAL.—Subsection (b) of section
 7 302 is amended by redesignating paragraph (5) as
 8 paragraph (6) and by inserting after paragraph (4)
 9 the following new paragraph:

10 “(5) REDEMPTIONS BY CERTAIN REGULATED
 11 INVESTMENT COMPANIES.—Except to the extent
 12 provided in regulations prescribed by the Secretary,
 13 subsection (a) shall apply to any distribution in re-
 14 demption of stock of a publicly offered regulated in-
 15 vestment company (within the meaning of section
 16 67(c)(2)(B)) if—

17 “(A) such redemption is upon the demand
 18 of the stockholder, and

19 “(B) such company issues only stock which
 20 is redeemable upon the demand of the stock-
 21 holder.”.

22 (2) CONFORMING AMENDMENT.—Subsection (a)
 23 of section 302 is amended by striking “or (4)” and
 24 inserting “(4), or (5)”.

1 (b) LOSSES ON REDEMPTIONS NOT DISALLOWED
 2 FOR FUND-OF-FUNDS REGULATED INVESTMENT COMPA-
 3 NIES.—Paragraph (3) of section 267(f) is amended by
 4 adding at the end the following new subparagraph:

5 “(D) REDEMPTIONS BY FUND-OF-FUNDS
 6 REGULATED INVESTMENT COMPANIES.—Except
 7 to the extent provided in regulations prescribed
 8 by the Secretary, subsection (a)(1) shall not
 9 apply to any distribution in redemption of stock
 10 of a regulated investment company if—

11 “(i) such company issues only stock
 12 which is redeemable upon the demand of
 13 the stockholder, and

14 “(ii) such redemption is upon the de-
 15 mand of another regulated investment
 16 company.”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to distributions after the date of
 19 the enactment of this Act.

20 **SEC. 307. REPEAL OF PREFERENTIAL DIVIDEND RULE FOR**
 21 **PUBLICLY OFFERED REGULATED INVEST-**
 22 **MENT COMPANIES.**

23 (a) IN GENERAL.—Subsection (c) of section 562 is
 24 amended by striking “The amount” and inserting “Except

1 in the case of a publicly offered regulated investment com-
 2 pany (as defined in section 67(c)(2)(B)), the amount”.

3 (b) CONFORMING AMENDMENT.—Section 562(c) is
 4 amended by inserting “(other than a publicly offered regu-
 5 lated investment company (as so defined))” after “regu-
 6 lated investment company” in the second sentence thereof.

7 (c) EFFECTIVE DATE.—The amendments made by
 8 this section shall apply to distributions in taxable years
 9 beginning after the date of the enactment of this Act.

10 **SEC. 308. ELECTIVE DEFERRAL OF CERTAIN LATE-YEAR**
 11 **LOSSES OF REGULATED INVESTMENT COM-**
 12 **PANIES.**

13 (a) IN GENERAL.—Paragraph (8) of section 852(b)
 14 is amended to read as follows:

15 “(8) ELECTIVE DEFERRAL OF CERTAIN LATE-
 16 YEAR LOSSES.—

17 “(A) IN GENERAL.—Except as otherwise
 18 provided by the Secretary, a regulated invest-
 19 ment company may elect for any taxable year to
 20 treat any portion of any qualified late-year loss
 21 for such taxable year as arising on the first day
 22 of the following taxable year for purposes of
 23 this title.

1 “(B) QUALIFIED LATE-YEAR LOSS.—For
 2 purposes of this paragraph, the term ‘qualified
 3 late-year loss’ means—

4 “(i) any post-October capital loss, and
 5 “(ii) any late-year ordinary loss.

6 “(C) POST-OCTOBER CAPITAL LOSS.—For
 7 purposes of this paragraph, the term ‘post-October capital loss’ means the greatest of—

9 “(i) the net capital loss attributable to
 10 the portion of the taxable year after October 31,
 11 ber 31,

12 “(ii) the net long-term capital loss attributable to such portion of the taxable
 13 year, or
 14 year, or

15 “(iii) the net short-term capital loss
 16 attributable to such portion of the taxable
 17 year.

18 “(D) LATE-YEAR ORDINARY LOSS.—For
 19 purposes of this paragraph, the term ‘late-year ordinary loss’ means the excess (if any) of—

21 “(i) the sum of—

22 “(I) the specified losses (as defined in section 4982(e)(5)(B)(ii)) attributable to the portion of the taxable
 23 tributable to the portion of the taxable
 24 year after October 31, plus
 25 year after October 31, plus

1 “(II) the ordinary losses not de-
 2 scribed in subclause (I) attributable to
 3 the portion of the taxable year after
 4 December 31, over

5 “(ii) the sum of—

6 “(I) the specified gains (as de-
 7 fined in section 4982(e)(5)(B)(i)) at-
 8 tributable to the portion of the taxable
 9 year after October 31, plus

10 “(II) the ordinary income not de-
 11 scribed in subclause (I) attributable to
 12 the portion of the taxable year after
 13 December 31.

14 “(E) SPECIAL RULE FOR COMPANIES DE-
 15 TERMINING REQUIRED CAPITAL GAIN DISTRIBU-
 16 TIONS ON TAXABLE YEAR BASIS.—In the case
 17 of a company to which an election under section
 18 4982(e)(4) applies—

19 “(i) if such company’s taxable year
 20 ends with the month of November, the
 21 amount of qualified late-year losses (if
 22 any) shall be computed without regard to
 23 any income, gain, or loss described in sub-
 24 paragraphs (C), (D)(i)(I), and (D)(ii)(I),
 25 and

1 “(ii) if such company’s taxable year
2 ends with the month of December, sub-
3 paragraph (A) shall not apply.”.

4 (b) CONFORMING AMENDMENTS.—

5 (1) Subsection (b) of section 852 is amended by
6 striking paragraph (10).

7 (2) Paragraph (2) of section 852(c) is amended
8 by striking the first sentence and inserting the fol-
9 lowing: “For purposes of applying this chapter to
10 distributions made by a regulated investment com-
11 pany with respect to any calendar year, the earnings
12 and profits of such company shall be determined
13 without regard to any net capital loss attributable to
14 the portion of the taxable year after October 31 and
15 without regard to any late-year ordinary loss (as de-
16 fined in subsection (b)(8)(D)).”

17 (3) Subparagraph (D) of section 871(k)(2) is
18 amended by striking the last two sentences and in-
19 serting the following: “For purposes of this subpara-
20 graph, the net short-term capital gain of the regu-
21 lated investment company shall be computed by
22 treating any short-term capital gain dividend includ-
23 ible in gross income with respect to stock of another
24 regulated investment company as a short-term cap-
25 ital gain.”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 the date of the enactment of this Act.

4 **SEC. 309. EXCEPTION TO HOLDING PERIOD REQUIREMENT**
 5 **FOR CERTAIN REGULARLY DECLARED EX-**
 6 **EMPT-INTEREST DIVIDENDS.**

7 (a) IN GENERAL.—Subparagraph (E) of section
 8 852(b)(4) is amended by striking all that precedes “In the
 9 case of a regulated investment company” and inserting the
 10 following:

11 “(E) EXCEPTION TO HOLDING PERIOD RE-
 12 QUIREMENT FOR CERTAIN REGULARLY DE-
 13 CLARED EXEMPT-INTEREST DIVIDENDS.—

14 “(i) DAILY DIVIDEND COMPANIES.—
 15 Except as otherwise provided by regula-
 16 tions, subparagraph (B) shall not apply
 17 with respect to a regular dividend paid by
 18 a regulated investment company which de-
 19 clares exempt-interest dividends on a daily
 20 basis in an amount equal to at least 90
 21 percent of its net tax-exempt interest and
 22 distributes such dividends on a monthly or
 23 more frequent basis.

1 “(ii) AUTHORITY TO SHORTEN RE-
 2 QUIRED HOLDING PERIOD WITH RESPECT
 3 TO OTHER COMPANIES.—”.

4 (b) CONFORMING AMENDMENT.—Clause (ii) of sec-
 5 tion 852(b)(4)(E), as amended by subsection (a), is
 6 amended by inserting “(other than a company described
 7 in clause (i))” after “regulated investment company”.

8 (c) EFFECTIVE DATE.—The amendments made by
 9 this section shall apply to losses incurred on shares of
 10 stock for which the taxpayer’s holding period begins after
 11 the date of the enactment of this Act.

12 **TITLE IV—MODIFICATIONS RE-**
 13 **LATED TO EXCISE TAX APPLI-**
 14 **CABLE TO REGULATED IN-**
 15 **VESTMENT COMPANIES**

16 **SEC. 401. EXCISE TAX EXEMPTION FOR CERTAIN REGU-**
 17 **LATED INVESTMENT COMPANIES OWNED BY**
 18 **TAX EXEMPT ENTITIES.**

19 (a) IN GENERAL.—Subsection (f) of section 4982 is
 20 amended—

21 (1) by striking “either” in the matter preceding
 22 paragraph (1),

23 (2) by striking “or” at the end of paragraph
 24 (1),

1 (3) by striking the period at the end of para-
2 graph (2), and

3 (4) by inserting after paragraph (2) the fol-
4 lowing new paragraphs:

5 “(3) any other tax-exempt entity whose owner-
6 ship of beneficial interests in the company would not
7 preclude the application of section 817(h)(4), or

8 “(4) another regulated investment company de-
9 scribed in this subsection.”.

10 (b) EFFECTIVE DATE.—The amendment made by
11 this section shall apply to calendar years beginning after
12 the date of the enactment of this Act.

13 **SEC. 402. DEFERRAL OF CERTAIN GAINS AND LOSSES OF**
14 **REGULATED INVESTMENT COMPANIES FOR**
15 **EXCISE TAX PURPOSES.**

16 (a) IN GENERAL.—Subsection (e) of section 4982 is
17 amended by striking paragraphs (5) and (6) and inserting
18 the following new paragraphs:

19 “(5) TREATMENT OF SPECIFIED GAINS AND
20 LOSSES AFTER OCTOBER 31 OF CALENDAR YEAR.—

21 “(A) IN GENERAL.—Any specified gain or
22 specified loss which (but for this paragraph)
23 would be properly taken into account for the
24 portion of the calendar year after October 31

1 shall be treated as arising on January 1 of the
2 following calendar year.

3 “(B) SPECIFIED GAINS AND LOSSES.—For
4 purposes of this paragraph—

5 “(i) SPECIFIED GAIN.—The term
6 ‘specified gain’ means ordinary gain from
7 the sale, exchange, or other disposition of
8 property (including the termination of a
9 position with respect to such property).
10 Such term shall include any foreign cur-
11 rency gain attributable to a section 988
12 transaction (within the meaning of section
13 988) and any amount includible in gross
14 income under section 1296(a)(1).

15 “(ii) SPECIFIED LOSS.—The term
16 ‘specified loss’ means ordinary loss from
17 the sale, exchange, or other disposition of
18 property (including the termination of a
19 position with respect to such property).
20 Such term shall include any foreign cur-
21 rency loss attributable to a section 988
22 transaction (within the meaning of section
23 988) and any amount allowable as a de-
24 duction under section 1296(a)(2).

1 “(C) SPECIAL RULE FOR COMPANIES
 2 ELECTING TO USE THE TAXABLE YEAR.—In the
 3 case of any company making an election under
 4 paragraph (4), subparagraph (A) shall be ap-
 5 plied by substituting the last day of the com-
 6 pany’s taxable year for October 31.

7 “(6) TREATMENT OF MARK TO MARKET
 8 GAIN.—

9 “(A) IN GENERAL.—For purposes of deter-
 10 mining a regulated investment company’s ordi-
 11 nary income, notwithstanding paragraph (1)(C),
 12 each specified mark to market provision shall be
 13 applied as if such company’s taxable year ended
 14 on October 31. In the case of a company mak-
 15 ing an election under paragraph (4), the pre-
 16 ceding sentence shall be applied by substituting
 17 the last day of the company’s taxable year for
 18 October 31.

19 “(B) SPECIFIED MARK TO MARKET PROVI-
 20 SION.—For purposes of this paragraph, the
 21 term ‘specified mark to market provision’
 22 means sections 1256 and 1296 and any other
 23 provision of this title (or regulations there-
 24 under) which treats property as disposed of on
 25 the last day of the taxable year.

1 “(7) ELECTIVE DEFERRAL OF CERTAIN ORDINARY LOSSES.—Except as provided in regulations
2 prescribed by the Secretary, in the case of a regulated investment company which has a taxable year
3 other than the calendar year—

4 “(A) such company may elect to determine
5 its ordinary income for the calendar year without regard to any net ordinary loss (determined
6 without regard to specified gains and losses taken into account under paragraph (5)) which
7 is attributable to the portion of such calendar year which is after the beginning of the taxable
8 year which begins in such calendar year, and

9 “(B) any amount of net ordinary loss not taken into account for a calendar year by reason of subparagraph (A) shall be treated as
10 arising on the 1st day of the following calendar year.”.

11 (b) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to calendar years beginning after
13 the date of the enactment of this Act.

1 **SEC. 403. DISTRIBUTED AMOUNT FOR EXCISE TAX PUR-**
 2 **POSES DETERMINED ON BASIS OF TAXES**
 3 **PAID BY REGULATED INVESTMENT COM-**
 4 **PANY.**

5 (a) IN GENERAL.—Subsection (c) of section 4982 is
 6 amended by adding at the end the following new para-
 7 graph:

8 “(4) SPECIAL RULE FOR ESTIMATED TAX PAY-
 9 MENTS.—

10 “(A) IN GENERAL.—In the case of a regu-
 11 lated investment company which elects the ap-
 12 plication of this paragraph for any calendar
 13 year—

14 “(i) the distributed amount with re-
 15 spect to such company for such calendar
 16 year shall be increased by the amount on
 17 which qualified estimated tax payments are
 18 made by such company during such cal-
 19 endar year, and

20 “(ii) the distributed amount with re-
 21 spect to such company for the following
 22 calendar year shall be reduced by the
 23 amount of such increase.

24 “(B) QUALIFIED ESTIMATED TAX PAY-
 25 MENTS.—For purposes of this paragraph, the
 26 term ‘qualified estimated tax payments’ means,

1 with respect to any calendar year, payments of
 2 estimated tax of a tax described in paragraph
 3 (1)(B) for any taxable year which begins (but
 4 does not end) in such calendar year.”.

5 (b) EFFECTIVE DATE.—The amendment made by
 6 this section shall apply to calendar years beginning after
 7 the date of the enactment of this Act.

8 **SEC. 404. INCREASE IN REQUIRED DISTRIBUTION OF CAP-**
 9 **ITAL GAIN NET INCOME.**

10 (a) IN GENERAL.—Subparagraph (B) of section
 11 4982(b)(1) is amended by striking “98 percent” and in-
 12 serting “98.2 percent”.

13 (b) EFFECTIVE DATE.—The amendments made by
 14 this section shall apply to calendar years beginning after
 15 the date of the enactment of this Act.

16 **TITLE V—OTHER PROVISIONS**

17 **SEC. 501. REPEAL OF ASSESSABLE PENALTY WITH RE-**
 18 **SPECT TO LIABILITY FOR TAX OF REGU-**
 19 **LATED INVESTMENT COMPANIES.**

20 (a) IN GENERAL.—Part I of subchapter B of chapter
 21 68 is amended by striking section 6697 (and by striking
 22 the item relating to such section in the table of sections
 23 of such part).

24 (b) CONFORMING AMENDMENT.—Section 860 is
 25 amended by striking subsection (j).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 the date of the enactment of this Act.

4 **SEC. 502. MODIFICATION OF SALES LOAD BASIS DEFERRAL**
5 **RULE FOR REGULATED INVESTMENT COMPA-**
6 **NIES.**

7 (a) IN GENERAL.—Subparagraph (C) of section
8 852(f)(1) is amended by striking “subsequently acquires”
9 and inserting “acquires, during the period beginning on
10 the date of the disposition referred to in subparagraph (B)
11 and ending on January 31 of the calendar year following
12 the calendar year that includes the date of such disposi-
13 tion,”.

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to charges incurred in taxable
16 years beginning after the date of the enactment of this
17 Act.

