H. R. 4337

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

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 16, 2009

Mr. Rangel (for himself, Mr. Neal of Massachusetts, Mr. Crowley, and Ms. Schwartz) introduced the following bill; which was referred to the Committee on Ways and Means

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the “Regulated Investment Company Modernization Act of 2009”.

(b) REFERENCE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a
section or other provision, the reference shall be consid-
ered to be made to a section or other provision of the In-

(c) Table of Contents.—The table of contents for
this Act is as follows:

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lated investment companies.
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Sec. 305. Return of capital distributions of regulated investment companies.
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Sec. 307. Repeal of preferential dividend rule for publicly offered regulated in-
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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 compa-
nies for excise tax purposes.
Sec. 403. Distributed amount for excise tax purposes determined on basis of
taxes paid by regulated investment company.

TITLE V—OTHER PROVISIONS

Sec. 501. Repeal of assessable penalty with respect to liability for tax of regu-
lated investment companies.
Sec. 502. Modification of sales load basis deferral rule for regulated investment companies.

TITLE I—CAPITAL LOSS CARRYOVERS OF REGULATED INVESTMENT COMPANIES

SEC. 101. CAPITAL LOSS CARRYOVERS OF REGULATED INVESTMENT COMPANIES.

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

“(3) Regulated investment companies.—

“(A) In general.—If a regulated investment company has a net capital loss for any taxable year—

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

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

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

“(B) Application of general rule.—The general rules of subsection (a) shall apply to the net capital loss referred to in paragraph (3)(A) as if such loss were a net capital gain of the same character as the net capital loss.
capital loss arising on the first day of the next taxable year.

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

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

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

(b) CONFORMING AMENDMENTS.—

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

“(C) a capital loss carryover to each of the 10 taxable years succeeding the loss year, but
only to the extent such loss is attributable to a
foreign expropriation loss,”.

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

(c) EFFECTIVE DATE.—

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

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

TITLE II—MODIFICATION OF
GROSS INCOME AND ASSET
TESTS OF REGULATED IN-
VESTMENT COMPANIES

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

(a) GROSS INCOME TEST.—Subparagraph (A) of sec-
tion 851(b)(2) is amended—
(1) by striking “foreign currencies” and inserting “commodities”, and

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

(b) Repeal of Regulatory Authority To Exclude Certain Foreign Currency Gains From Qualifying Income.—Paragraph (3) of section 851(b) is amended by striking “For purposes of paragraph (2), the Secretary may by regulation exclude from qualifying income foreign currency gains which are not directly related to the company’s principal business of investing in stock or securities (or options and futures with respect to stock or securities).”.

(e) Effective Date.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 202. SAVINGS PROVISIONS FOR FAILURES OF REGULATED INVESTMENT COMPANIES TO SATISFY GROSS INCOME AND ASSET TESTS.

(a) Asset Test.—Subsection (d) of section 851 is amended—

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

“(1) In general.—A corporation which meets”, and
(2) by adding at the end the following new paragraph:

“(2) SPECIAL RULES REGARDING FAILURE TO SATISFY REQUIREMENTS.—

“(A) IN GENERAL.—A corporation that fails to meet the requirements of subsection (b)(3) (other than a failure described in subparagraph (B)(i)) for a particular quarter shall nevertheless be considered to have satisfied the requirements of such subsection for such quarter if—

“(i) following the corporation’s identification of the failure to satisfy the requirements of such subsection for a particular 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 of any taxable year 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 a particular 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 speci-
fied in clause (i) within 6 months after the
last day of the quarter in which the cor-
poration’s identification of the failure to
satisfy the requirements of such subsection
occurred or such other time period pre-
scribed by the Secretary and in the manner
prescribed by the Secretary, or

“(II) the requirements of such sub-
section 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 a par-
ticular quarter shall nevertheless be considered
to have satisfied the requirements of such sub-
section for such quarter if—

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

“(I) 1 percent of the total value
of the corporation’s assets at the end
of the quarter for which such meas-
urement is done, and
“(II) $10,000,000, and

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

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

“(C) TAX.—

“(i) TAX IMPOSED.—If subparagraph
(A) applies to a corporation for any tax-
able year, there is hereby imposed on such
corporation a tax in an amount equal to
the greater of—

“(I) $50,000, or

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

“(ii) PERIOD.—For purposes of clause (i)(II), the period described in this clause is the period beginning on the first date that the failure to satisfy the requirements of subsection (b)(3) occurs as a result of the ownership of such assets and ending on the earlier of the date on which the corporation disposes of such assets or the end of the first quarter when there is no longer a failure to satisfy such subsection.

“(iii) ADMINISTRATIVE PROVISIONS.—

For purposes of subtitle F, the taxes imposed by this subparagraph shall be treated as excise taxes with respect to which the deficiency procedures of such subtitle apply.”.

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

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

“(1) DISCLOSURE REQUIREMENT.—A corporation that fails to meet the requirement of paragraph
(2) of subsection (b) for any taxable year shall never-
theless be considered to have satisfied the require-
ment of such paragraph for such taxable year if—

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

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

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

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

“(B) 1⁄9 of the gross income of such com-
pany which is derived from such sources.”.

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

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

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

TITLE III—MODIFICATION OF
RULES RELATED TO DIVI-
DENDS AND OTHER DIS-
TRIBUTIONS

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

(a) CAPITAL GAIN DIVIDENDS.—

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

“(C) DEFINITION OF CAPITAL GAIN DIVI-
DEND.—

“(i) IN GENERAL.—For purposes of
this part, a capital gain dividend is the ex-
cess of—
“(I) the portion of any dividend which is reported by the company as a capital gain dividend in a written statement furnished to its shareholders (hereafter in this subparagraph referred to as the ‘reported capital gain dividend amount’), over

“(II) the excess reported amount (if any) which is allocable to the reported capital gain dividend amount.

“(ii) Allocation of excess reported amount.—

“(I) In general.—Except as provided in subclause (II), the excess reported amount (if any) which is allocable to the reported capital gain dividend amount is that portion of the excess reported amount which bears the same ratio to the excess reported amount as the reported 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
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not begin and end in the same cal-
endar year, if the post-December re-
ported amount equals or exceeds the
excess reported amount for such tax-
able year, subclause (I) shall be ap-
plied by substituting ‘post-December
reported amount’ for ‘aggregate re-
ported amount’ and no excess re-
ported amount shall be allocated to
any dividend paid on or before De-
cember 31 of such taxable year.

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

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

“(II) AGGREGATE REPORTED
AMOUNT.—The term ‘aggregate re-
ported amount’ means the aggregate
amount of dividends reported by the
company under clause (i)(I) as capital
gain dividends for the taxable year
(including capital gain dividends paid after the close of the taxable year described in section 855).

“(III) 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.

“(iv) Adjustment for determinations.—If there is an increase in the excess described in subparagraph (A) for the taxable year which results from a determination (as defined in section 860(e)), the company may, subject to the limitations of this subparagraph, increase the amount of capital gain dividends reported under clause (i).

“(v) Special rule for losses late in the calendar year.—For special rule for certain losses after October 31, see paragraph (8).”
(2) CONFORMING AMENDMENT.—Subparagraph (B) of section 860(f)(2) is amended by inserting “or reported (as the case may be)” after “designated”.

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

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

“(i) IN GENERAL.—An exempt-interest dividend is the excess of—

“(I) the portion of any dividend (other than a capital gain dividend) paid by a regulated investment company and reported by the company as an exempt-interest dividend in a written statement furnished to its shareholders (hereafter in this subparagraph referred to as the ‘reported exempt-interest dividend amount’), over

“(II) the excess reported amount (if any) which is allocable to the reported exempt-interest dividend amount.

“(ii) ALLOCATION OF EXCESS REPORTED AMOUNT.—
“(I) IN GENERAL.—Except as
provided in subclause (II), the excess
reported amount (if any) which is al-
locable to the reported exempt-interest
dividend amount is that portion of the
excess reported amount which bears
the same ratio to the excess reported
amount as the reported exempt-inter-
est dividend amount bears to the ag-
gregate 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 cal-
endar year, if the post-December re-
ported amount equals or exceeds the
excess reported amount for such tax-
able year, subclause (I) shall be ap-
plied by substituting ‘post-December
reported amount’ for ‘aggregate re-
ported amount’ and no excess re-
ported amount shall be allocated to
any dividend paid on or before De-
cember 31 of such taxable year.
“(iii) Definitions.—For purposes of this subparagraph—

“(I) 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.

“(II) Aggregate reported amount.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the company under clause (i)(I) as exempt-interest dividends for the taxable year (including exempt-interest dividends paid after the close of the taxable year described in section 855).

“(III) 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.
“(IV) Exempt Interest.—The term ‘exempt interest’ means, with respect to any regulated investment company, the excess of the amount of interest excludable from gross income under section 103(a) over the amounts disallowed as deductions under sections 265 and 171(a)(2).”.

(e) Foreign Tax Credits.—Subsection (e) of section 853 is amended by striking “so designated by the company in a written notice mailed to its shareholders not later than 60 days after the close of the taxable year” and inserting “so reported by the company in a written statement furnished to its shareholders”.

(d) Credits for Tax Credit Bonds.—Subsection (e) of section 853A is amended by striking “so designated by the regulated investment company in a written notice mailed to its shareholders not later than 60 days after the close of its taxable year” and inserting “so reported by the regulated investment company in a written statement furnished to its shareholders”.

(e) Dividend Received Deduction, etc.—

(1) In general.—Paragraph (1) of section 854(b) is amended—
(A) by striking “designated under this sub-
paragraph by the regulated investment com-
pany” in subparagraph (A) and inserting “re-
ported by the regulated investment company as
eligible for such deduction in a written state-
ment furnished to its shareholders”,

(B) by striking “designated by the regu-
lated investment company” in subparagraph
(B)(i) and inserting “reported by the regulated
investment company as qualified dividend in-
come in a written statement furnished to its
shareholders”,

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

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

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

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

(1) INTEREST-RELATED DIVIDENDS.—Subpara-
graph (C) of section 871(k)(1) is amended to read
as follows:
“(C) INTEREST-RELATED DIVIDEND.—

“(i) IN GENERAL.—For purposes of this paragraph, the term ‘interest related dividend’ means the excess of—

“(I) the portion of any dividend which is reported by the company as an interest related dividend in a written statement furnished to its shareholders (hereafter in this subparagraph referred to as the ‘reported interest related dividend amount’), over

“(II) the excess reported amount (if any) which is allocable to the reported interest related dividend amount.

“(ii) ALLOCATION OF EXCESS REPORTED AMOUNT.—

“(I) IN GENERAL.—Except as provided in subclause (II), the excess reported amount (if any) which is allocable to the reported interest related dividend amount is that portion of the excess reported amount which bears the same ratio to the excess reported amount as the reported interest re-
lated 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.

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

“(I) 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.
“(II) Aggregate reported amount.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the company under clause (i)(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).

“(III) 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.

“(iv) Termination.—The term ‘interest related dividend’ shall not include any dividend with respect to any taxable year of the company beginning after December 31, 2009.”.

(2) Short-term capital gain dividends.—Subparagraph (C) of section 871(k)(2) is amended to read as follows:
“(C) Short-term capital gain dividend.—

“(i) In general.—For purposes of this paragraph, the term ‘short-term capital gain dividend’ means the excess of—

“(I) the portion of any dividend which is reported by the company as a short-term capital gain dividend in a written statement furnished to its shareholders (hereafter in this sub-paragraph referred to as the ‘reported short-term capital gain dividend amount’), over

“(II) the excess reported amount (if any) which is allocable to the reported short-term capital gain dividend amount.

“(ii) Allocation of excess reported amount.—

“(I) In general.—Except as provided in subclause (II), the excess reported amount (if any) which is allocable to the reported short-term capital gain dividend amount is that portion of the excess reported amount
which bears the same ratio to the ex-
cess reported amount as the reported
short-term capital gain dividend
amount bears to the aggregate re-
ported 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 cal-
endar year, if the post-December re-
ported amount equals or exceeds the
excess reported amount for such tax-
able year, subclause (I) shall be ap-
plied by substituting ‘post-December
reported amount’ for ‘aggregate re-
ported amount’ and no excess re-
ported amount shall be allocated to
any dividend paid on or before De-
cember 31 of such taxable year.

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

“(I) EXCESS REPORTED
AMOUNT.—The term ‘excess reported
amount’ means the excess of the ag-
gregate reported amount over the
qualified short-term gain of the company for the taxable year.

“(II) Aggregate reported amount.—The term ‘aggregate reported amount’ means the aggregate amount of dividends reported by the company under clause (i)(I) as short-term capital gain dividends for the taxable year (including short-term capital gain dividends paid after the close of the taxable year described in section 855).

“(III) 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.

“(iv) Termination.—The term ‘short-term capital gain dividend’ shall not include any dividend with respect to any taxable year of the company beginning after December 31, 2009.”.
(g) Effective Date.—The amendments made by this section shall apply to distributions in taxable years beginning after the date of the enactment of this Act.

(h) Application of JGTRRA Sunset.—Section 303 of the Jobs and Growth Tax Relief Reconciliation Act of 2003 shall apply to the amendments made by subparagraphs (B) and (D) of subsection (e)(1) to the same extent and in the same manner as section 303 of such Act applies to the amendments made by section 302 of such Act.

SEC. 302. EARNINGS AND PROFITS OF REGULATED INVESTMENT COMPANIES.

(a) In General.—Paragraph (1) of section 852(c) is amended by inserting “(other than by reason of section 265 or 171(a)(2))” after “not allowable as a deduction”.

(b) Effective Date.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

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

(a) In General.—Section 852 is amended by adding at the end the following new subsection:

“(g) Special Rules for Fund of Funds.—

“(1) In General.—In the case of a qualified fund of funds—
“(A) such fund shall be qualified to pay exempt-interest dividends to its shareholders without regard to whether such fund satisfies the requirements of the first sentence of subsection (b)(5), and

“(B) such fund may elect the application of section 853 (relating to foreign tax credit allowed to shareholders) without regard to the requirement of subsection (a)(1) thereof.

“(2) QUALIFIED FUND OF FUNDS.—For purposes of this subsection, the term ‘qualified fund of funds’ means a regulated investment company if (at the close of each quarter of the taxable year) at least 95 percent of the value of its total assets is represented by—

“(A) cash and cash items (including receivables), and

“(B) interests in other regulated investment companies.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after the date of the enactment of this Act.
SEC. 304. MODIFICATION OF RULES FOR SPILLOVER DIVIDENDS OF REGULATED INVESTMENT COMPANIES.

(a) Deadline for Declaration of Dividend.—Paragraph (1) of section 855(a) is amended to read as follows:

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

“(A) the 15th day of the 9th month following the close the taxable year, or

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

(b) Deadline for Distribution of Dividend.—Paragraph (2) of section 855(a) is amended by striking “the first regular dividend payment” and inserting “the first dividend payment of the same type of dividend”.

(c) Effective Date.—The amendments made by this section shall apply to distributions in taxable years beginning after the date of the enactment of this Act.

SEC. 305. RETURN OF CAPITAL DISTRIBUTIONS OF REGULATED INVESTMENT COMPANIES.

(a) In General.—Subsection (b) of section 316 is amended by adding at the end the following new paragraph:
“(4) Certain distributions by regulated investment companies in excess of earnings and profits.—In the case of a regulated investment company that has a taxable year other than a calendar year, if the distributions by the company with respect to any class of stock of such company for the taxable year (including distributions of property after the close of the taxable year described in section 855) exceed the company’s current and accumulated earnings and profits which may be used for the payment of dividends on such class of stock, the company’s current earnings and profits shall, for purposes of subsection (a), be allocated first to distributions with respect to such class of stock made during the portion of the taxable year which precedes January 1.”.

(b) Effective Date.—The amendment made by this section shall apply to distributions made in taxable years beginning after the date of the enactment of this Act.

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

(a) Redemptions Treated as Exchanges.—

(1) In general.—Subsection (b) of section 302 is amended by redesignating paragraph (5) as
paragraph (6) and by inserting after paragraph (4) the following new paragraph:

“(5) ReDEmPtions by certain regulated investment companies.—Except to the extent provided in regulations prescribed by the Secretary, subsection (a) shall apply to any distribution in redemption of stock of a publicly offered regulated investment company (within the meaning of section 67(c)(2)(B)) if—

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

“(B) such company issues only stock which is redeemable upon the demand of the stockholder.”.

(2) conforming amendment.—Subsection (a) of section 302 is amended by striking “or (4)” and inserting “(4), or (5)”. 

(b) losSes on redemptionS not disallowed for fund-of-funds regulated investment companies.—Paragraph (3) of section 267(f) is amended by adding at the end the following new subparagraph:

“(D) redemptionS by fund-of-funds regulated investment companies.—Except to the extent provided in regulations prescribed by the Secretary, subsection (a)(1) shall not
apply to any distribution in redemption of stock
of a regulated investment company if—

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

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

(e) **Effective Date.**—The amendments made by
this section shall apply to distributions after the date of
the enactment of this Act.

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

(a) **In General.**—Subsection (c) of section 562 is
amended by striking “The amount” and inserting “Except
in the case of a publicly offered regulated investment com-
pany (as defined in section 67(c)(2)(B)), the amount”.

(b) **Conforming Amendment.**—Section 562(c) is
amended by inserting “(other than a publicly offered regu-
lated investment company (as so defined))” after “regu-
lated investment company” in the second sentence thereof.

(e) **Effective Date.**—The amendments made by
this section shall apply to distributions in taxable years
beginning after the date of the enactment of this Act.
SEC. 308. ELECTIVE DEFERRAL OF CERTAIN LATE-YEAR LOSSES OF REGULATED INVESTMENT COMPANIES.

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

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

“(A) IN GENERAL.—Except as otherwise provided by the Secretary, a regulated investment company may elect for any taxable year to compute its taxable income, net capital gain, and earnings and profits without regard to any portion of any qualified late-year loss, and any such portion shall be treated as arising on the first day of the following taxable year for purposes of such computations.

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

“(i) any post-October capital loss, and

“(ii) any late-year ordinary loss.

“(C) POST-OCTOBER CAPITAL LOSS.—For purposes of this paragraph, the term ‘post-October capital loss’ means the greatest of—
“(i) the net capital loss attributable to the portion of the taxable year after October 31,

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

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

“(D) Late-Year Ordinary Loss.—For purposes of this paragraph, the term ‘late-year ordinary loss’ means the excess (if any) of—

“(i) the sum of—

“(I) the ordinary losses attributable to the portion of the taxable year after December 31, plus

“(II) the specified losses (as defined in section 4982(e)(5)(B)(ii)) attributable to the portion of the taxable year after October 31 (and before January 1), over

“(ii) the sum of—

“(I) the ordinary income attributable to the portion of the taxable year after December 31, plus
“(II) the specified gains (as defined in section 4982(e)(5)(B)(ii)) attributable to the portion of the taxable year after October 31 (and before January 1).

“(E) Special rule for companies determining required capital gain distributions on taxable year basis.—In the case of a company to which an election under section 4982(e)(4) applies—

“(i) if such company’s taxable year ends with the month of November, subparagraphs (C)(i), (D)(i)(II), and (D)(ii)(II) shall each be applied by substituting ‘November 30’ for ‘October 31’, and

“(ii) if such company’s taxable year ends with the month of December, subparagraph (A) shall not apply.”.

(b) Conforming Amendments.—

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

(2) Subsection (c) of section 852 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).
(3) Subparagraph (D) of section 871(k)(2) is amended by striking the last two sentences and inserting the following: “For purposes of this subparagraph, the net short-term capital gain of the regulated investment company shall be computed by treating any short-term capital gain dividend includible in gross income with respect to stock of another regulated investment company as a short-term capital gain.”.

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

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.

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

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

(2) by striking “or” at the end of paragraph (1),
(3) by striking the period at the end of para-
graph (2) and inserting “or”, and

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

“(3) any other tax-exempt entity whose owner-
ship of beneficial interests in the company would not
preclude the application of section 817(h)(4).”.

(b) Effective Date.—The amendment made by
this section shall apply to calendar years beginning after
the date of the enactment of this Act.

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

(a) In General.—Subsection (e) of section 4982 is
amended by striking paragraphs (5) and (6) and inserting
the following new paragraphs:

“(5) Treatment of Specified Gains and
LosSES After October 31 of Calendar Year.—

“(A) In General.—Any specified gain or
specified loss which (but for this paragraph)
would be properly taken into account for the
portion of the calendar year after October 31
shall be treated as arising on the 1st day of the
following calendar year.
“(B) SPECIFIED GAINS AND LOSSES.—For purposes of this paragraph—

“(i) SPECIFIED GAIN.—The term ‘specified gain’ means ordinary gain from the sale, exchange, or other disposition of property (including the termination of a position with respect to such property). Such term shall include any foreign currency gain attributable to a section 988 transaction (within the meaning of section 988) and any amount includible in gross income under section 1296(a)(1).

“(ii) SPECIFIED LOSS.—The term ‘specified loss’ means ordinary loss from the sale, exchange, or other disposition of property (including the termination of a position with respect to such property). Such term shall include any foreign currency loss attributable to a section 988 transaction (within the meaning of section 988) and any amount allowable as a deduction under section 1296(a)(2).

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

“(6) Treatment of mark to market gain.—

“(A) In general.—For purposes of determining a regulated investment company’s ordinary income, notwithstanding paragraph (1)(C), each specified mark to market provision shall be applied as if such company’s taxable year ended on October 31. In the case of a company making an election under paragraph (4), the preceding sentence shall be applied by substituting the last day of the company’s taxable year for October 31.

“(B) Specified mark to market provision.—For purposes of this paragraph, the term ‘specified mark to market provision’ means sections 1256 and 1296 and any other provision of this title which treats property as disposed of on the last day of the taxable year.

“(7) Elective deferral of certain ordinary losses.—Except as provided in regulations prescribed by the Secretary, in the case of a regu-
lated investment company which has a taxable year other than the calendar year—

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

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

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

SEC. 403. DISTRIBUTED AMOUNT FOR EXCISE TAX PURPOSES DETERMINED ON BASIS OF TAXES PAID BY REGULATED INVESTMENT COMPANY.

(a) IN GENERAL.—Subsection (c) of section 4982 is amended by adding at the end the following new paragraph:
“(4) Special rule for estimated tax payments.—

“(A) In general.—In the case of a regulated investment company which elects the application of this paragraph for any calendar year—

“(i) the distributed amount with respect to such company for such calendar year shall be increased by the amount on which qualified estimated tax payments are made by such company during such calendar year, and

“(ii) the distributed amount with respect to such company for the following calendar year shall be reduced by the amount of such increase.

“(B) Qualified estimated tax payments.—For purposes of this paragraph, the term ‘qualified estimated tax payments’ means, with respect to any calendar year, payments of estimated tax of a tax described in paragraph (1)(B) for any taxable year which begins (but does not end) in such calendar year.”.
(b) Effective Date.—The amendment made by this section shall apply to calendar years beginning after the date of the enactment of this Act.

TITLE V—OTHER PROVISIONS

SEC. 501. REPEAL OF ASSESSABLE PENALTY WITH RESPECT TO LIABILITY FOR TAX OF REGULATED INVESTMENT COMPANIES.

(a) In General.—Part I of subchapter B of chapter 68 is amended by striking section 6697 (and by striking the item relating to such section in the table of sections of such part).

(b) Conforming Amendment.—Section 860 is amended by striking subsection (j).

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after the date of the enactment of this Act.

SEC. 502. MODIFICATION OF SALES LOAD BASIS DEFERRAL RULE FOR REGULATED INVESTMENT COMPANIES.

(a) In General.—Subparagraph (C) of section 852(f)(1) is amended by striking “subsequently acquires” and inserting “acquires, during the period beginning on the date of the disposition referred to in subparagraph (B) and ending on January 31 of the calendar year following

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the calendar year that includes the date of such disposi-

tion,”.

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