

Suspend the Rules and Pass the Bill, H.R. 4337, With an Amendment

(The amendment strikes all after the enacting clause and inserts a new text)

111TH CONGRESS
1ST SESSION

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

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”.

1 (b) REFERENCE.—Except as otherwise expressly pro-
2 vided, whenever in this Act an amendment or repeal is
3 expressed in terms of an amendment to, or repeal of, a
4 section or other provision, the reference shall be consid-
5 ered to be made to a section or other provision of the In-
6 ternal Revenue Code of 1986.

7 (c) TABLE OF CONTENTS.—The table of contents for
8 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 regu-
lated 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 com-
pany.

Sec. 307. Repeal of preferential dividend rule for publicly offered regulated in-
vestment 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.

TITLE VI—PAYGO COMPLIANCE

- Sec. 601. Paygo compliance.

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

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

3 “(iii) the excess of the net long-term
4 capital loss over the net short-term capital
5 gain for such year shall be a long-term
6 capital loss arising on the first day of the
7 next taxable year.

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

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

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

25 (b) CONFORMING AMENDMENTS.—

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

3 “(C) a capital loss carryover to each of the
4 10 taxable years succeeding the loss year, but
5 only to the extent such loss is attributable to a
6 foreign expropriation loss,”.

7 (2) Paragraph (10) of section 1222 is amended
8 by striking “section 1212” and inserting “section
9 1212(a)(1)”.

10 (c) EFFECTIVE DATE.—

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

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

1 **TITLE II—MODIFICATION OF**
2 **GROSS INCOME AND ASSET**
3 **TESTS OF REGULATED IN-**
4 **VESTMENT COMPANIES**

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

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

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

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

14 (b) REPEAL OF REGULATORY AUTHORITY TO EX-
15 CLUDE CERTAIN FOREIGN CURRENCY GAINS FROM
16 QUALIFYING INCOME.—Subsection (b) of section 851 is
17 amended by striking “For purposes of paragraph (2), the
18 Secretary may by regulation exclude from qualifying in-
19 come foreign currency gains which are not directly related
20 to the company’s principal business of investing in stock
21 or securities (or options and futures with respect to stock
22 or securities).” in the flush matter after paragraph (3).

23 (c) CONFORMING AMENDMENTS.—

24 (1) Subsection (h) of section 851 is amended by
25 inserting “(determined by substituting ‘foreign cur-

1 rencias' for 'commodities' therein)" after "subsection
2 (b)(2)(A)".

3 (2) Paragraph (4) of section 7704(d) is amend-
4 ed by inserting "(determined by substituting 'foreign
5 currencies' for 'commodities' therein)" after "section
6 851(b)(2)(A)".

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

10 **SEC. 202. SAVINGS PROVISIONS FOR FAILURES OF REGU-**
11 **LATED INVESTMENT COMPANIES TO SATISFY**
12 **GROSS INCOME AND ASSET TESTS.**

13 (a) ASSET TEST.—Subsection (d) of section 851 is
14 amended—

15 (1) by striking "A corporation which meets"
16 and inserting the following:

17 "(1) IN GENERAL.—A corporation which
18 meets", and

19 (2) by adding at the end the following new
20 paragraph:

21 "(2) SPECIAL RULES REGARDING FAILURE TO
22 SATISFY REQUIREMENTS.—If paragraph (1) does
23 not preserve a corporation's status as a regulated in-
24 vestment company for any particular quarter—

1 “(A) IN GENERAL.—A corporation that
2 fails to meet the requirements of subsection
3 (b)(3) (other than a failure described in sub-
4 paragraph (B)(i)) for such quarter shall never-
5 theless be considered to have satisfied the re-
6 quirements of such subsection for such quarter
7 if—

8 “(i) following the corporation’s identi-
9 fication of the failure to satisfy the re-
10 quirements of such subsection for such
11 quarter, a description of each asset that
12 causes the corporation to fail to satisfy the
13 requirements of such subsection at the
14 close of such quarter is set forth in a
15 schedule for such quarter filed in the man-
16 ner provided by the Secretary,

17 “(ii) the failure to meet the require-
18 ments of such subsection for such quarter
19 is due to reasonable cause and not due to
20 willful neglect, and

21 “(iii)(I) the corporation disposes of
22 the assets set forth on the schedule speci-
23 fied in clause (i) within 6 months after the
24 last day of the quarter in which the cor-
25 poration’s identification of the failure to

1 satisfy the requirements of such subsection
2 occurred or such other time period pre-
3 scribed by the Secretary and in the manner
4 prescribed by the Secretary, or

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

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

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

17 “(I) 1 percent of the total value
18 of the corporation’s assets at the end
19 of the quarter for which such meas-
20 urement is done, or

21 “(II) \$10,000,000, and

22 “(ii)(I) the corporation, following the
23 identification of such failure, disposes of
24 assets in order to meet the requirements of
25 such subsection within 6 months after the

1 last day of the quarter in which the cor-
2 poration's identification of the failure to
3 satisfy the requirements of such subsection
4 occurred or such other time period pre-
5 scribed by the Secretary and in the manner
6 prescribed by the Secretary, or

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

10 “(C) TAX.—

11 “(i) TAX IMPOSED.—If subparagraph
12 (A) applies to a corporation for any quar-
13 ter, there is hereby imposed on such cor-
14 poration a tax in an amount equal to the
15 greater of—

16 “(I) \$50,000, or

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

1 “(ii) PERIOD.—For purposes of clause
2 (i)(II), the period described in this clause
3 is the period beginning on the first date
4 that the failure to satisfy the requirements
5 of subsection (b)(3) occurs as a result of
6 the ownership of such assets and ending on
7 the earlier of the date on which the cor-
8 poration disposes of such assets or the end
9 of the first quarter when there is no longer
10 a failure to satisfy such subsection.

11 “(iii) ADMINISTRATIVE PROVISIONS.—
12 For purposes of subtitle F, a tax imposed
13 by this subparagraph shall be treated as
14 an excise tax with respect to which the de-
15 ficiency procedures of such subtitle
16 apply.”.

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

19 “(i) FAILURE TO SATISFY GROSS INCOME TEST.—
20 “(1) DISCLOSURE REQUIREMENT.—A corpora-
21 tion that fails to meet the requirement of paragraph
22 (2) of subsection (b) for any taxable year shall nev-
23 ertheless be considered to have satisfied the require-
24 ment of such paragraph for such taxable year if—

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

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

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

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

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

21 (c) DEDUCTION OF TAXES PAID FROM INVESTMENT
22 COMPANY TAXABLE INCOME.—Paragraph (2) of section
23 852(b) is amended by adding at the end the following new
24 subparagraph:

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

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

9 **TITLE III—MODIFICATION OF**
10 **RULES RELATED TO DIVI-**
11 **DENDS AND OTHER DIS-**
12 **TRIBUTIONS**

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

16 (a) CAPITAL GAIN DIVIDENDS.—

17 (1) IN GENERAL.—Subparagraph (C) of section
18 852(b)(3) is amended to read as follows:

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

21 “(i) IN GENERAL.—Except as pro-
22 vided in clause (ii), a capital gain dividend
23 is any dividend, or part thereof, which is
24 reported by the company as a capital gain

1 dividend in written statements furnished to
2 its shareholders.

3 “(ii) EXCESS REPORTED AMOUNTS.—

4 If the aggregate reported amount with re-
5 spect to the company for any taxable year
6 exceeds the net capital gain of the com-
7 pany for such taxable year, a capital gain
8 dividend is the excess of—

9 “(I) the reported capital gain div-
10 idend amount, over

11 “(II) the excess reported amount
12 which is allocable to such reported
13 capital gain dividend amount.

14 “(iii) ALLOCATION OF EXCESS RE-
15 PORTED AMOUNT.—

16 “(I) IN GENERAL.—Except as
17 provided in subclause (II), the excess
18 reported amount (if any) which is al-
19 locable to the reported capital gain
20 dividend amount is that portion of the
21 excess reported amount which bears
22 the same ratio to the excess reported
23 amount as the reported capital gain
24 dividend amount bears to the aggre-
25 gate reported amount.

1 “(II) SPECIAL RULE FOR NON-
2 CALENDAR YEAR TAXPAYERS.—In the
3 case of any taxable year which does
4 not begin and end in the same cal-
5 endar year, if the post-December re-
6 ported amount equals or exceeds the
7 excess reported amount for such tax-
8 able year, subclause (I) shall be ap-
9 plied by substituting ‘post-December
10 reported amount’ for ‘aggregate re-
11 ported amount’ and no excess re-
12 ported amount shall be allocated to
13 any dividend paid on or before De-
14 cember 31 of such taxable year.

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

17 “(I) REPORTED CAPITAL GAIN
18 DIVIDEND AMOUNT.—The term ‘re-
19 ported capital gain dividend amount’
20 means the amount reported to its
21 shareholders under clause (i) as a
22 capital gain dividend.

23 “(II) EXCESS REPORTED
24 AMOUNT.—The term ‘excess reported
25 amount’ means the excess of the ag-

1 aggregate reported amount over the net
2 capital gain of the company for the
3 taxable year.

4 “(III) AGGREGATE REPORTED
5 AMOUNT.—The term ‘aggregate re-
6 ported amount’ means the aggregate
7 amount of dividends reported by the
8 company under clause (i) as capital
9 gain dividends for the taxable year
10 (including capital gain dividends paid
11 after the close of the taxable year de-
12 scribed in section 855).

13 “(IV) POST-DECEMBER RE-
14 PORTED AMOUNT.—The term ‘post-
15 December reported amount’ means
16 the aggregate reported amount deter-
17 mined by taking into account only
18 dividends paid after December 31 of
19 the taxable year.

20 “(v) ADJUSTMENT FOR DETERMINA-
21 TIONS.—If there is an increase in the ex-
22 cess described in subparagraph (A) for the
23 taxable year which results from a deter-
24 mination (as defined in section 860(e)),
25 the company may, subject to the limita-

1 tions of this subparagraph, increase the
2 amount of capital gain dividends reported
3 under clause (i).

4 “(vi) SPECIAL RULE FOR LOSSES
5 LATE IN THE CALENDAR YEAR.—For spe-
6 cial rule for certain losses after October
7 31, see paragraph (8).”.

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

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

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

15 “(i) IN GENERAL.—Except as pro-
16 vided in clause (ii), an exempt-interest divi-
17 dend is any dividend or part thereof (other
18 than a capital gain dividend) paid by a
19 regulated investment company and re-
20 ported by the company as an exempt-inter-
21 est dividend in written statements fur-
22 nished to its shareholders.

23 “(ii) EXCESS REPORTED AMOUNTS.—
24 If the aggregate reported amount with re-
25 spect to the company for any taxable year

1 exceeds the exempt interest of the company
2 for such taxable year, an exempt-interest
3 dividend is the excess of—

4 “(I) the reported exempt-interest
5 dividend amount, over

6 “(II) the excess reported amount
7 which is allocable to such reported ex-
8 empt-interest dividend amount.

9 “(iii) ALLOCATION OF EXCESS RE-
10 PORTED AMOUNT.—

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

21 “(II) SPECIAL RULE FOR NON-
22 CALENDAR YEAR TAXPAYERS.—In the
23 case of any taxable year which does
24 not begin and end in the same cal-
25 endar year, if the post-December re-

1 reported amount equals or exceeds the
2 excess reported amount for such tax-
3 able year, subclause (I) shall be ap-
4 plied by substituting ‘post-December
5 reported amount’ for ‘aggregate re-
6 ported amount’ and no excess re-
7 ported amount shall be allocated to
8 any dividend paid on or before De-
9 cember 31 of such taxable year.

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

12 “(I) REPORTED EXEMPT-INTER-
13 EST DIVIDEND AMOUNT.—The term
14 ‘reported exempt-interest dividend
15 amount’ means the amount reported
16 to its shareholders under clause (i) as
17 an exempt-interest dividend.

18 “(II) EXCESS REPORTED
19 AMOUNT.—The term ‘excess reported
20 amount’ means the excess of the ag-
21 gregate reported amount over the ex-
22 empt interest of the company for the
23 taxable year.

24 “(III) AGGREGATE REPORTED
25 AMOUNT.—The term ‘aggregate re-

1 reported amount' means the aggregate
2 amount of dividends reported by the
3 company under clause (i) as exempt-
4 interest dividends for the taxable year
5 (including exempt-interest dividends
6 paid after the close of the taxable year
7 described in section 855).

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

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

23 (c) FOREIGN TAX CREDITS.—

24 (1) IN GENERAL.—Subsection (c) of section
25 853 is amended—

1 (A) by striking “so designated by the com-
2 pany in a written notice mailed to its share-
3 holders not later than 60 days after the close
4 of the taxable year” and inserting “so reported
5 by the company in a written statement fur-
6 nished to such shareholder”, and

7 (B) by striking “NOTICE” in the heading
8 and inserting “STATEMENTS”.

9 (2) CONFORMING AMENDMENTS.—Subsection
10 (d) of section 853 is amended—

11 (A) by striking “and the notice to share-
12 holders required by subsection (c)” in the text
13 thereof, and

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

16 (d) CREDITS FOR TAX CREDIT BONDS.—

17 (1) IN GENERAL.—Subsection (c) of section
18 853A is amended—

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

1 (B) by striking “NOTICE” in the heading
2 and inserting “STATEMENTS”.

3 (2) CONFORMING AMENDMENTS.—Subsection
4 (d) of section 853A is amended—

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

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

10 (e) DIVIDEND RECEIVED DEDUCTION, ETC.—

11 (1) IN GENERAL.—Paragraph (1) of section
12 854(b) is amended—

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

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

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

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

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

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

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

15 “(C) INTEREST-RELATED DIVIDEND.—For
16 purposes of this paragraph—

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

23 “(ii) EXCESS REPORTED AMOUNTS.—
24 If the aggregate reported amount with re-
25 spect to the company for any taxable year

1 exceeds the qualified net interest income of
2 the company for such taxable year, an in-
3 terest related dividend is the excess of—

4 “(I) the reported interest related
5 dividend amount, over

6 “(II) the excess reported amount
7 which is allocable to such reported in-
8 terest related dividend amount.

9 “(iii) ALLOCATION OF EXCESS RE-
10 PORTED AMOUNT.—

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

21 “(II) SPECIAL RULE FOR NON-
22 CALENDAR YEAR TAXPAYERS.—In the
23 case of any taxable year which does
24 not begin and end in the same cal-
25 endar year, if the post-December re-

1 reported amount equals or exceeds the
2 excess reported amount for such tax-
3 able year, subclause (I) shall be ap-
4 plied by substituting ‘post-December
5 reported amount’ for ‘aggregate re-
6 ported amount’ and no excess re-
7 ported amount shall be allocated to
8 any dividend paid on or before De-
9 cember 31 of such taxable year.

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

12 “(I) REPORTED INTEREST RE-
13 LATED DIVIDEND AMOUNT.—The
14 term ‘reported interest related divi-
15 dend amount’ means the amount re-
16 ported to its shareholders under
17 clause (i) as an interest related divi-
18 dend.

19 “(II) EXCESS REPORTED
20 AMOUNT.—The term ‘excess reported
21 amount’ means the excess of the ag-
22 gregate reported amount over the
23 qualified net interest income of the
24 company for the taxable year.

1 “(III) AGGREGATE REPORTED
2 AMOUNT.—The term ‘aggregate re-
3 ported amount’ means the aggregate
4 amount of dividends reported by the
5 company under clause (i) as interest
6 related dividends for the taxable year
7 (including interest related dividends
8 paid after the close of the taxable year
9 described in section 855).

10 “(IV) POST-DECEMBER RE-
11 PORTED AMOUNT.—The term ‘post-
12 December reported amount’ means
13 the aggregate reported amount deter-
14 mined by taking into account only
15 dividends paid after December 31 of
16 the taxable year.

17 “(v) TERMINATION.—The term ‘inter-
18 est related dividend’ shall not include any
19 dividend with respect to”.

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

24 “(C) SHORT-TERM CAPITAL GAIN DIVI-
25 DEND.—For purposes of this paragraph—

1 “(i) IN GENERAL.—Except as pro-
2 vided in clause (ii), the term ‘short-term
3 capital gain dividend’ means any dividend,
4 or part thereof, which is reported by the
5 company as a short-term capital gain divi-
6 dend in written statements furnished to its
7 shareholders.

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

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

17 “(II) the excess reported amount
18 which is allocable to such reported
19 short-term capital gain dividend
20 amount.

21 “(iii) ALLOCATION OF EXCESS RE-
22 PORTED AMOUNT.—

23 “(I) IN GENERAL.—Except as
24 provided in subclause (II), the excess
25 reported amount (if any) which is al-

1 locable to the reported short-term cap-
2 ital gain dividend amount is that por-
3 tion of the excess reported amount
4 which bears the same ratio to the ex-
5 cess reported amount as the reported
6 short-term capital gain dividend
7 amount bears to the aggregate re-
8 ported amount.

9 “(II) SPECIAL RULE FOR NON-
10 CALENDAR YEAR TAXPAYERS.—In the
11 case of any taxable year which does
12 not begin and end in the same cal-
13 endar year, if the post-December re-
14 ported amount equals or exceeds the
15 excess reported amount for such tax-
16 able year, subclause (I) shall be ap-
17 plied by substituting ‘post-December
18 reported amount’ for ‘aggregate re-
19 ported amount’ and no excess re-
20 ported amount shall be allocated to
21 any dividend paid on or before De-
22 cember 31 of such taxable year.

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

1 “(I) REPORTED SHORT-TERM
2 CAPITAL GAIN DIVIDEND AMOUNT.—

3 The term ‘reported short-term capital
4 gain dividend amount’ means the
5 amount reported to its shareholders
6 under clause (i) as a short-term cap-
7 ital gain dividend.

8 “(II) EXCESS REPORTED
9 AMOUNT.—The term ‘excess reported
10 amount’ means the excess of the ag-
11 gregate reported amount over the
12 qualified short-term gain of the com-
13 pany for the taxable year.

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

24 “(IV) POST-DECEMBER RE-
25 PORTED AMOUNT.—The term ‘post-

1 December reported amount’ means
2 the aggregate reported amount deter-
3 mined by taking into account only
4 dividends paid after December 31 of
5 the taxable year.

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

9 (g) CONFORMING AMENDMENTS.—Section 855 is
10 amended—

11 (1) by striking subsection (c) and redesignating
12 subsection (d) as subsection (c), and

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

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

18 (i) APPLICATION OF JGTRRA SUNSET.—Section
19 303 of the Jobs and Growth Tax Relief Reconciliation Act
20 of 2003 shall apply to the amendments made by subpara-
21 graphs (B) and (D) of subsection (e)(1) to the same extent
22 and in the same manner as section 303 of such Act applies
23 to the amendments made by section 302 of such Act.

1 **SEC. 302. EARNINGS AND PROFITS OF REGULATED INVEST-**
2 **MENT COMPANIES.**

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

5 “(1) TREATMENT OF NONDEDUCTIBLE
6 ITEMS.—

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

10 “(i) such net capital loss shall not be
11 taken into account for purposes of deter-
12 mining the company’s earnings and profits,
13 and

14 “(ii) any capital loss arising on the
15 first day of the next taxable year by reason
16 of clause (ii) or (iii) of section
17 1212(a)(3)(A) shall be treated as so aris-
18 ing for purposes of determining earnings
19 and profits.

20 “(B) OTHER NONDEDUCTIBLE ITEMS.—

21 “(i) IN GENERAL.—The earnings and
22 profits of a regulated investment company
23 for any taxable year (but not its accumu-
24 lated earnings and profits) shall not be re-
25 duced by any amount which is not allow-
26 able as a deduction (other than by reason

1 of section 265 or 171(a)(2)) in computing
2 its taxable income for such taxable year.

3 “(ii) COORDINATION WITH TREAT-
4 MENT OF NET CAPITAL LOSSES.—Clause
5 (i) shall not apply to a net capital loss to
6 which subparagraph (A) applies.”.

7 (b) CONFORMING AMENDMENTS.—

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

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

16 (2) Paragraphs (1)(A) and (2)(A) of section
17 871(k) are each amended by inserting “which meets
18 the requirements of section 852(a) for the taxable
19 year with respect to which the dividend is paid” be-
20 fore the period at the end.

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

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

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

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

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

9 “(A) such fund shall be qualified to pay
10 exempt-interest dividends to its shareholders
11 without regard to whether such fund satisfies
12 the requirements of the first sentence of sub-
13 section (b)(5), and

14 “(B) such fund may elect the application
15 of section 853 (relating to foreign tax credit al-
16 lowed to shareholders) without regard to the re-
17 quirement of subsection (a)(1) thereof.

18 “(2) QUALIFIED FUND OF FUNDS.—For pur-
19 poses of this subsection, the term ‘qualified fund of
20 funds’ means a regulated investment company if (at
21 the close of each quarter of the taxable year) at least
22 50 percent of the value of its total assets is rep-
23 resented by interests in other regulated investment
24 companies.”.

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

4 **SEC. 304. MODIFICATION OF RULES FOR SPILLOVER DIVI-**
5 **DENDS OF REGULATED INVESTMENT COMPA-**
6 **NIES.**

7 (a) DEADLINE FOR DECLARATION OF DIVIDEND.—
8 Paragraph (1) of section 855(a) is amended to read as
9 follows:

10 “(1) declares a dividend before the later of—
11 “(A) the 15th day of the 9th month fol-
12 lowing the close of the taxable year, or
13 “(B) in the case of an extension of time
14 for filing the company’s return for the taxable
15 year, the due date for filing such return taking
16 into account such extension, and”.

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

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

1 1940 shall be treated as the same type of dividend as a
2 capital gain dividend.”.

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

6 **SEC. 305. RETURN OF CAPITAL DISTRIBUTIONS OF REGU-**
7 **LATED INVESTMENT COMPANIES.**

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

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

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

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

7 (a) REDEMPTIONS TREATED AS EXCHANGES.—

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

12 “(5) REDEMPTIONS BY CERTAIN REGULATED
13 INVESTMENT COMPANIES.—Except to the extent
14 provided in regulations prescribed by the Secretary,
15 subsection (a) shall apply to any distribution in re-
16 demption of stock of a publicly offered regulated in-
17 vestment company (within the meaning of section
18 67(c)(2)(B)) if—

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

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

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

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

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

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

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

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to distributions after the date of
22 the enactment of this Act.

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

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

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

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

15 **SEC. 308. ELECTIVE DEFERRAL OF CERTAIN LATE-YEAR**
16 **LOSSES OF REGULATED INVESTMENT COM-**
17 **PANIES.**

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

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

22 “(A) IN GENERAL.—Except as otherwise
23 provided by the Secretary, a regulated invest-
24 ment company may elect for any taxable year to
25 treat any portion of any qualified late-year loss
26 for such taxable year as arising on the first day

1 of the following taxable year for purposes of
2 this title.

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

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

7 “(ii) any late-year ordinary loss.

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

11 “(i) the net capital loss attributable to
12 the portion of the taxable year after October
13 31,

14 “(ii) the net long-term capital loss at-
15 tributable to such portion of the taxable
16 year, or

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

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

23 “(i) the sum of—

24 “(I) the specified losses (as de-
25 fined in section 4982(e)(5)(B)(ii)) at-

1 tributable to the portion of the taxable
2 year after October 31, plus

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

7 “(ii) the sum of—

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

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

16 “(E) SPECIAL RULE FOR COMPANIES DE-
17 TERMINING REQUIRED CAPITAL GAIN DISTRIBU-
18 TIONS ON TAXABLE YEAR BASIS.—In the case
19 of a company to which an election under section
20 4982(e)(4) applies—

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

1 paragraphs (C), (D)(i)(I), and (D)(ii)(I),
2 and

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

6 (b) CONFORMING AMENDMENTS.—

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

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

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

1 regulated investment company as a short-term cap-
2 ital gain.”.

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

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

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

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

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

1 “(ii) AUTHORITY TO SHORTEN RE-
2 REQUIRED 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 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 NARY LOSSES.—Except as provided in regulations
3 prescribed by the Secretary, in the case of a regulated investment company which has a taxable year
4 lated investment company which has a taxable year
5 other than the calendar year—

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

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

18 “(B) any amount of net ordinary loss not
19 (b) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to calendar years beginning after
21 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.

18 **TITLE VI—PAYGO COMPLIANCE**

19 **SEC. 601. PAYGO COMPLIANCE.**

20 The budgetary effects of this Act, for the purpose of
21 complying with the Statutory Pay-As-You-Go-Act of 2010,
22 shall be determined by reference to the latest statement
23 titled “Budgetary Effects of PAYGO Legislation” for this
24 Act, submitted for printing in the Congressional Record
25 by the Chairman of the House Budget Committee, pro-

- 1 vided that such statement has been submitted prior to the
- 2 vote on passage.