

110TH CONGRESS  
1ST SESSION

# H. R. 397

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

---

## IN THE HOUSE OF REPRESENTATIVES

JANUARY 10, 2007

Mr. SAXTON introduced the following bill; which was referred to the Committee on Ways and Means

---

## A BILL

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

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

3 **SECTION 1. DEFERRAL OF CERTAIN REINVESTED CAPITAL**  
4 **GAIN DIVIDENDS OF REGULATED INVEST-**  
5 **MENT COMPANIES.**

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

1 **“SEC. 1046. CERTAIN REINVESTED CAPITAL GAIN DIVI-**  
2 **DENDS OF REGULATED INVESTMENT COMPA-**  
3 **NIES.**

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

11 “(b) LIMITATION.—

12 “(1) IN GENERAL.—The amount of gain that  
13 may be deferred under subsection (a) for any taxable  
14 year shall not exceed—

15 “(A) \$5,000, or

16 “(B) in the case of a joint return, twice  
17 the amount in subparagraph (A).

18 “(2) INFLATION ADJUSTMENT OF MAXIMUM EX-  
19 CLUSION.—

20 “(A) IN GENERAL.—In the case of any  
21 taxable year beginning in a calendar year after  
22 2007, the amount in paragraph (1)(A) shall be  
23 increased by an amount equal to—

24 “(i) such dollar amount, multiplied by

25 “(ii) the cost-of-living adjustment de-  
26 termined under section 1(f)(3) for the cal-

1           endar year in which the taxable year be-  
2           gins, determined by substituting ‘calendar  
3           year 2006’ for ‘calendar year 1992’ in sub-  
4           paragraph (B) thereof.

5           “(B) ROUNDING RULES.—The amount in  
6           paragraph (1)(A), after adjustment under para-  
7           graph (2)(A), shall be rounded to the nearest  
8           multiple of \$100.

9           “(c) CAPITAL GAIN DIVIDEND.—For purposes of this  
10          section, the term ‘capital gain dividend’ has the meaning  
11          given to such term by section 852(b)(3)(C).

12          “(d) RECAPTURE OF PREVIOUSLY DEFERRED CAP-  
13          ITAL GAIN DIVIDENDS.—Amounts deferred pursuant to  
14          subsection (a) (and not previously recognized under this  
15          subsection) shall be recognized upon the subsequent sale  
16          or redemption of shares in the distributing company to  
17          the extent of the taxpayer’s adjusted basis in the shares  
18          so sold or redeemed.

19          “(e) SECTION NOT TO APPLY TO CERTAIN TAX-  
20          PAYERS.—No deduction shall be allowed under this section  
21          to—

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

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

3               “(2) an estate or trust.

4       “(f) ELECTION.—An election under this section shall  
5       be made at such time and in such manner as the Secretary  
6       may prescribe.”.

7       (b) CONFORMING AMENDMENTS.—

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

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

      “Sec. 1046. Certain Reinvested Capital Gain Dividends of Regulated Invest-  
          ment Companies.”.

17      (c) EFFECTIVE DATE.—The amendments made by  
18      this section shall apply to taxable years beginning after  
19      December 31, 2006.

○