AN ACT
To amend sections 5217 (c) and 552 (b) (3) of the Internal Revenue Code of 1954.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5217 (c) of the Internal Revenue Code of 1954 is amended by striking out "July 11, 1956" and inserting in lieu thereof "July 11, 1958".

SEC. 2. (a) Section 552 (b) (3) of the Internal Revenue Code of 1954 (relating to method of taxation of capital gains of regulated investment companies) is amended by adding after subparagraph (C) thereof the following new subparagraph:

"(D) Treatment by Shareholders of Undistributed Capital Gains.—

"(i) Every shareholder of a regulated investment company at the close of the company's taxable year shall include, in computing his long-term capital gains in his return for his taxable year in which the last day of the company's taxable year falls, such amount as the company shall designate in respect of such shares in a written notice mailed to its shareholders at any time prior to the expiration of 30 days after close of its taxable year, but the amount so includible by any shareholder shall not exceed that part of the amount subjected to tax in subparagraph (A) which he would have received if all of such amount had been distributed as capital gain dividends by the company to the holders of such shares at the close of its taxable year.

"(ii) For purposes of this title, every such shareholder shall be deemed to have paid, for his taxable year under clause (i), the tax of 25 percent imposed by subparagraph (A) on the amounts required by this subparagraph to be included in respect of such shares in computing his long-term capital gains for that year; and such shareholder shall be allowed credit or refund, as the case may be, for the tax so deemed to have been paid by him.

"(iii) The adjusted basis of such shares in the hands of the shareholder shall be increased by 75 percent of the amounts required by this subparagraph to be included in computing his long-term capital gains.

"(iv) In the event of such designation the tax imposed by subparagraph (A) shall be paid by the regulated investment company within 30 days after close of its taxable year.

"(v) The earnings and profits of such regulated investment company, and the earnings and profits of any such shareholder which is a corporation, shall be appropriately adjusted in accordance with regulations prescribed by the Secretary or his delegate."

(b) The amendment made by this section shall apply only with respect to taxable years of regulated investment companies beginning after December 31, 1956.

Approved July 11, 1956.