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Legislative Update: Proposal to modify taxation of financial derivatives

Senate Finance Committee ranking member Ron Wyden (D-OR) yesterday released proposed legislation to modify the taxation of financial derivatives.

According to a [section-by-section discussion](#) [PDF 125 KB] on the Finance Committee's website, the "Modernization of Derivatives Tax Act" (MODA):

"...would require mark to market and ordinary income tax treatment for all derivative contracts, sourcing gains and losses to the taxpayer's country of residence. In this way, the bill would apply a simpler, more straightforward tax regime to all derivative contracts with one timing rule, one character rule, and one sourcing rule – striking nine code sections and streamlining many others in the process. The bill would also introduce a general rule for capital hedging while scaling back the current, complex straddle rules."

The website links to an estimate prepared in April 2016 by the Joint Committee on Taxation indicating that the proposal would increase tax revenues by \$16.5 billion over 10 years.

Documents relating to the discussion draft—including legislative text, summaries of the bill, and a technical explanation prepared by the staff of the Joint Committee on Taxation—are available on the Finance Committee's [website](#).

Background

Senator Wyden introduced a discussion draft of MODA in May of 2016. Yesterday's bill is substantially similar to last year's discussion draft. Read a discussion of last year's discussion draft in [TaxNewsFlash-Legislative Updates](#)