

by the Secretary or his delegate) for 10 or more years, the term 'controls' in subsection (c) (2) means the ownership of more than 50 percent of the total combined voting power of all classes of stock entitled to vote.

"(B) Except as provided in subsection (f) (2) (B), section 851(d) shall apply except that the term 'quarter' shall mean 'taxable year'."

SEC. 5. Section 1242 of the Internal Revenue Code of 1954 (relating to losses on small business investment company stock) is amended by inserting "(a) GENERAL RULE.—" before "If—", and by striking "shall be treated" in the first sentence and inserting in lieu thereof "shall, to the extent provided in this section, be treated", and by adding at the end thereof the following new subsections:

"(b) MAXIMUM AMOUNT FOR ANY TAXABLE YEAR.—For any taxable year, the aggregate amount of the loss on stock in a small business investment company which was acquired by the taxpayer after May 29, 1967, and which is treated by the taxpayer by reason of this section as a loss from the sale or exchange of property which is not a capital asset shall not exceed—

"(1) \$25,000, or

"(2) \$50,000 in the case of a husband and wife filing a joint return for such year under section 6013.

"(c) CARRYOVER OF LOSS ON SBIC STOCK.—The amount of loss on stock in a small business investment company which is not deductible because it exceeds the limitations provided in subsection (b) shall be carried to the succeeding taxable year. In the succeeding taxable year, the amount of loss carried to such year shall reduce—

"(1) the excess of the net short-term capital gain over the net long-term capital loss, and, to the extent the amount of loss carried to such year is greater than such excess,

"(2) the excess of the net long-term capital gain over the net short-term capital loss.

The unused amount of loss carried to such year shall be considered as incurred on stock in a small business investment company in such year."

SEC. 6. Section 1243 of the Internal Revenue Code of 1954 (relating to losses of small business investment companies) is amended to read as follows:

"SEC. 1243. GAIN OR LOSS OF SMALL BUSINESS INVESTMENT COMPANY.

"(a) LOSSES FROM EQUITY SECURITIES.—In the case of a small business investment company operating under the Small Business Investment Act of 1958, as amended, if, for a taxable year—

"(1) losses from sales or exchanges of equity securities acquired pursuant to the Small Business Investment Act of 1958, as amended, and in accordance with regulations of the Small Business Administration prescribed under such Act, exceed gains from the sales or exchanges of other such equity securities, and

"(2) such losses would (but for this section) be losses from the sales or exchanges of capital assets, then the excess of such losses over such gains shall, to the extent provided in this section, be treated as losses from the sales or exchanges of property which are not capital assets.

"(b) MAXIMUM AMOUNT FOR ANY TAXABLE YEAR.—

"(1) IN GENERAL.—For any taxable year, the aggregate amount treated by a small business investment company by reason of subsection (a) as losses from the sales or exchanges of property which are not capital assets shall not exceed \$100,000.

"(2) STOCK REQUIRED BY CONVERTING CERTAIN DEBENTURES.—If a loss incurred on or before March 31, 1972, is on stock received pursuant to the conversion privilege of a debenture which was acquired by the taxpayer (pursuant to section 304 of the Small Business Investment Act of 1958) before May 29, 1967, then the amount of such loss, or the excess of losses from sales or exchanges of equity securities over gains from sales or exchanges of other such equity securities if less, which exceeds the limitation of paragraph (1) shall be treated as a loss from the sale or exchange of property which is not a capital asset during the taxable year.

"(c) CARRYOVER OF LOSS FROM EQUITY SECURITIES.—The amount of loss on equity securities which is not deductible for a taxable year under this section because of the limitation of subsection (b) shall be treated as a loss from a sale or exchange of equity securities held for not more than 6 months in the succeeding year.

"(d) SPECIAL RULES FOR DETERMINING BASIS OF STOCK.—For purposes of determining the amount of gain or loss (if any) from the sale or exchange by a