**8594. Under what circumstances can a taxpayer roll over the gain from a sale of stock in a specialized small business investment company?**

Individual taxpayers and C corporations that invest in a specialized small business investment company (SSBIC, see below) may elect to roll over capital gain (within limits) on publicly-traded securities sold within 60 days of the SSBIC purchase. In order to defer the taxation of gain from such a sale, the individual or corporation must use the proceeds from the sale to purchase common stock or a partnership interest in a SSBIC within 60 days of the date of sale.[[1]](#footnote-1)

The amount of gain that may be rolled over for any taxable year by an individual is limited to the lesser of (a) $50,000 or (b) $500,000, reduced by any gain previously excluded under this rollover provision. Thus, the most an individual may roll over during his lifetime is $500,000.[[2]](#footnote-2) (The limits are $25,000 and $250,000, respectively, for married taxpayers filing separately.)

In the case of C corporations, the gain that may be deferred may not exceed the lesser of (a) $250,000 or (b) $1,000,000, reduced by any gain excluded in previous taxable years.[[3]](#footnote-3)

To the extent that gain from the sale of publicly-traded securities exceeds the cost of the SSBIC common stock or partnership interest subsequently purchased, such gain will be taxed in the year of sale. Any gain that is characterized as ordinary income is not eligible for rollover treatment. In addition, gain previously rolled over under this provision may not be rolled over again.[[4]](#footnote-4)

Basis in the SSBIC common stock or partnership interest is generally reduced by the amount of gain that is rolled over. Despite this, the basis of any SSBIC stock is not reduced for purposes of calculating the gain eligible for the 50 percent exclusion for qualified small business stock (see Q 8591).[[5]](#footnote-5)

A “specialized small business investment company” is defined as any partnership or corporation that is licensed by the Small Business Administration under Section 301(d) of the Small Business Investment Act of 1958, as in effect on May 13, 1993.[[6]](#footnote-6)

Estates, trusts, partnerships, and S corporations are not eligible to take advantage of this rollover provision.[[7]](#footnote-7)

1. . IRC Sec. 1044. [↑](#footnote-ref-1)
2. . IRC Sec. 1044(b)(1). [↑](#footnote-ref-2)
3. . IRC Sec. 1044(b)(2). [↑](#footnote-ref-3)
4. . IRC Sec. 1044(a). [↑](#footnote-ref-4)
5. . IRC Sec. 1044(d). [↑](#footnote-ref-5)
6. . IRC Sec. 1044(c)(3). [↑](#footnote-ref-6)
7. . IRC Sec. 1044(c)(4). [↑](#footnote-ref-7)