

1995, see section 1616(c) of Pub. L. 104-188, set out as a note under section 593 of this title.

EFFECTIVE DATE OF 1989 AMENDMENT

Section 7303(b) of Pub. L. 101-239 provided that: "The amendment made by this section [amending this section] shall apply to sales after July 10, 1989."

EFFECTIVE DATE OF 1988 AMENDMENT

Amendment by Pub. L. 100-647 effective, except as otherwise provided, as if included in the provision of the Tax Reform Act of 1986, Pub. L. 99-514, to which such amendment relates, see section 1019(a) of Pub. L. 100-647, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by section 1854(a)(1), (2)(A), (4), (5)(A), (7), (10), (11) of Pub. L. 99-514 effective, except as otherwise provided, as if included in the provisions of the Tax Reform Act of 1984, Pub. L. 98-369, div. A, to which such amendment relates, see section 1881 of Pub. L. 99-514, set out as a note under section 48 of this title.

Amendment by section 1854(a)(3)(B) of Pub. L. 99-514 applicable to sales of securities after Oct. 22, 1986, except that a taxpayer or executor may elect to have section 1042(b)(3) of the Internal Revenue Code of 1954 (as in effect before the amendment by section 1854(a)(3)(B) of Pub. L. 99-514) apply to sales before Oct. 22, 1986, as if section 1042(b)(3) included the last sentence of section 409(n)(1) of this title (as added by section 1854(a)(3)(A) of Pub. L. 99-514), see section 1854(a)(3)(C) of Pub. L. 99-514, as amended, set out as a note under section 409 of this title.

Section 1854(a)(6)(B)-(D) of Pub. L. 99-514 provided that:

"(B) The amendment made by subparagraph (A) [amending this section] shall apply to sales after March 28, 1985, except that such amendment shall not apply to sales made before July 1, 1985, if made pursuant to a binding contract in effect on March 28, 1985, and at all times thereafter.

"(C) The amendment made by subparagraph (A) shall not apply to any sale occurring on December 20, 1985, with respect to which—

"(i) a commitment letter was issued by a bank on October 31, 1984, and

"(ii) a final purchase agreement was entered into on November 5, 1985.

"(D) In the case of a sale on September 27, 1985, with respect to which a preliminary commitment letter was issued by a bank on April 10, 1985, and with respect to which a commitment letter was issued by a bank on June 28, 1985, the amendment made by subparagraph (A) shall apply but such sale shall be treated as having occurred on September 27, 1986."

Section 1854(a)(8)(B) of Pub. L. 99-514 provided that: "The amendment made by subparagraph (A) [amending this section] shall apply to dispositions after the date of the enactment of this Act [Oct. 22, 1986], in taxable years ending after such date."

Amendment by section 1854(a)(9)(B) of Pub. L. 99-514 applicable to sales of securities after Oct. 22, 1986, see section 1854(a)(9)(D) of Pub. L. 99-514, set out as an Effective Date note under section 4979A of this title.

Amendment by section 1854(f)(3)(B) of Pub. L. 99-514 effective Oct. 22, 1986, see section 1854(f)(4)(A) of Pub. L. 99-514, set out as a note under section 409 of this title.

EFFECTIVE DATE

Section 541(c) of Pub. L. 98-369 provided that: "The amendments made by this section [enacting this section and amending sections 1016 and 1223 of this title] shall apply to sales of securities in taxable years beginning after the date of enactment of this Act [July 18, 1984]."

SAVINGS PROVISION

For provisions that nothing in amendment by Pub. L. 101-508 be construed to affect treatment of certain

transactions occurring, property acquired, or items of income, loss, deduction, or credit taken into account prior to Nov. 5, 1990, for purposes of determining liability for tax for periods ending after Nov. 5, 1990, see section 11821(b) of Pub. L. 101-508, set out as a note under section 45K of this title.

LINE ITEM VETO

Section 968 of Pub. L. 105-34, amending this section and enacting provisions set out as a note above, was subject to line item veto by the President, Cancellation No. 97-2, signed Aug. 11, 1997, 62 F.R. 43267, Aug. 12, 1997. For decision holding line item veto unconstitutional, see *Clinton v. City of New York*, 524 U.S. 417, 118 S.Ct. 2091, 141 L.Ed.2d 393 (1998).

PLAN AMENDMENTS NOT REQUIRED UNTIL  
JANUARY 1, 1989

For provisions directing that if any amendments made by subtitle A or subtitle C of title XI [ §§1101-1147 and 1171-1177] or title XVIII [ §§1800-1899A] of Pub. L. 99-514 require an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after Jan. 1, 1989, see section 1140 of Pub. L. 99-514, as amended, set out as a note under section 401 of this title.

OWNERSHIP OF STOCK OPTIONS AS OWNERSHIP OF  
STOCK; EMPLOYEE OWNERSHIP OF STOCK AFTER SALE

Section 1854(a)(2)(B) of Pub. L. 99-514 provided that:

"(i) The requirement that section 1042(b) of the Internal Revenue Code of 1954 [now 1986] shall be applied with regard to section 318(a)(4) of such Code shall apply to sales after May 6, 1986.

"(ii) In the case of sales after July 18, 1984, and before the date of the enactment of this Act [Oct. 22, 1986], paragraph (2) of section 1042(b) of such Code shall apply as if it read as follows:

"(2) EMPLOYEES MUST OWN 30 PERCENT OF STOCK AFTER SALE.—The plan or cooperative referred to in paragraph (1) owns, immediately after the sale, at least 30 percent of the employer securities or 30 percent of the value of employer securities (within the meaning of section 409(1)) outstanding at the time of sale."

REPLACEMENT PERIOD FOR CERTAIN SECURITIES

Section 1854(a)(5)(B) of Pub. L. 99-514 provided that: "If—

"(i) before January 1, 1987, the taxpayer acquired any security (as defined in section 165(g)(2) of the Internal Revenue Code of 1954 [now 1986]) issued by a domestic corporation or by any State or political subdivision thereof,

"(ii) the taxpayer treated such security as qualified replacement property for purposes of section 1042 of such Code, and

"(iii) such property does not meet the requirements of section 1042(c)(4) of such Code (as amended by subparagraph (A)), then, with respect to so much of any gain which the taxpayer treated as not recognized under section 1042(a) by reason of the acquisition of such property, the replacement period for purposes of such section shall not expire before January 1, 1987."

**§ 1043. Sale of property to comply with conflict-of-interest requirements**

**(a) Nonrecognition of gain**

If an eligible person sells any property pursuant to a certificate of divestiture, at the election of the taxpayer, gain from such sale shall be recognized only to the extent that the amount realized on such sale exceeds the cost (to the extent not previously taken into account under this subsection) of any permitted property purchased by the taxpayer during the 60-day period beginning on the date of such sale.

**(b) Definitions**

For purposes of this section—

**(1) Eligible person**

The term “eligible person” means—

(A) an officer or employee of the executive branch, or a judicial officer, of the Federal Government, but does not mean a special Government employee as defined in section 202 of title 18, United States Code, and

(B) any spouse or minor or dependent child whose ownership of any property is attributable under any statute, regulation, rule, judicial canon, or executive order referred to in paragraph (2) to a person referred to in subparagraph (A).

**(2) Certificate of divestiture**

The term “certificate of divestiture” means any written determination—

(A) that states that divestiture of specific property is reasonably necessary to comply with any Federal conflict of interest statute, regulation, rule, judicial canon, or executive order (including section 208 of title 18, United States Code), or requested by a congressional committee as a condition of confirmation,

(B) that has been issued by the President or the Director of the Office of Government Ethics, in the case of executive branch officers or employees, or by the Judicial Conference of the United States (or its designee), in the case of judicial officers, and

(C) that identifies the specific property to be divested.

**(3) Permitted property**

The term “permitted property” means any obligation of the United States or any diversified investment fund approved by regulations issued by the Office of Government Ethics.

**(4) Purchase**

The taxpayer shall be considered to have purchased any permitted property if, but for subsection (c), the unadjusted basis of such property would be its cost within the meaning of section 1012.

**(5) Special rule for trusts**

For purposes of this section, the trustee of a trust shall be treated as an eligible person with respect to property which is held in the trust if—

(A) any person referred to in paragraph (1)(A) has a beneficial interest in the principal or income of the trust, or

(B) any person referred to in paragraph (1)(B) has a beneficial interest in the principal or income of the trust and such interest is attributable under any statute, regulation, rule, judicial canon, or executive order referred to in paragraph (2) to a person referred to in paragraph (1)(A).

**(6) Judicial officer**

The term “judicial officer” means the Chief Justice of the United States, the Associate Justices of the Supreme Court, and the judges of the United States courts of appeals, United States district courts, including the district courts in Guam, the Northern Mariana Is-

lands, and the Virgin Islands, Court of Appeals for the Federal Circuit, Court of International Trade, Tax Court, Court of Federal Claims, Court of Appeals for Veterans Claims, United States Court of Appeals for the Armed Forces, and any court created by Act of Congress, the judges of which are entitled to hold office during good behavior.

**(c) Basis adjustments**

If gain from the sale of any property is not recognized by reason of subsection (a), such gain shall be applied to reduce (in the order acquired) the basis for determining gain or loss of any permitted property which is purchased by the taxpayer during the 60-day period described in subsection (a).

(Added Pub. L. 101-194, title V, §502(a), Nov. 30, 1989, 103 Stat. 1754; amended Pub. L. 101-280, §6(a)(1), May 4, 1990, 104 Stat. 160; Pub. L. 101-508, title XI, §11703(a)(1), Nov. 5, 1990, 104 Stat. 1388-516; Pub. L. 109-432, div. A, title IV, §418(a), (b), Dec. 20, 2006, 120 Stat. 2966.)

## AMENDMENTS

2006—Subsec. (b)(1)(A). Pub. L. 109-432, §418(a)(1)(A), inserted “, or a judicial officer,” after “executive branch”.

Subsec. (b)(1)(B), (2)(A). Pub. L. 109-432, §418(a)(1)(B), (2)(A), inserted “judicial canon,” after “rule.”

Subsec. (b)(2)(B). Pub. L. 109-432, §418(a)(2)(B), inserted “in the case of executive branch officers or employees, or by the Judicial Conference of the United States (or its designee), in the case of judicial officers,” after “Ethics.”

Subsec. (b)(5)(B). Pub. L. 109-432, §418(a)(3), inserted “judicial canon,” after “rule.”

Subsec. (b)(6). Pub. L. 109-432, §418(b), added par. (6). 1990—Subsec. (a). Pub. L. 101-508 substituted “to the extent not previously taken into account under this subsection” for “reduced by any basis adjustment under subsection (c) attributable to a prior sale”.

Subsec. (b)(5). Pub. L. 101-280 added par. (5).

## EFFECTIVE DATE OF 2006 AMENDMENT

Pub. L. 109-432, div. A, title IV, §418(c), Dec. 20, 2006, 120 Stat. 2967, provided that: “The amendments made by this section [amending this section] shall apply to sales after the date of enactment of this Act [Dec. 20, 2006].”

## EFFECTIVE DATE OF 1990 AMENDMENTS

Section 11703(a)(2) of Pub. L. 101-508 provided that: “The amendment made by paragraph (1) [amending this section] shall apply to sales after November 30, 1989.”

Section 6(a)(3) of Pub. L. 101-280 provided that: “The amendment made by paragraph (1) [amending this section] and the provisions of paragraph (2) [set out below] shall apply to sales after November 30, 1989.”

## EFFECTIVE DATE

Section applicable to sales after Nov. 30, 1989, see section 502(c) of Pub. L. 101-194, set out as an Effective Date of 1989 Amendment note under section 1016 of this title.

## PROPERTY SOLD BEFORE JUNE 19, 1990

Section 6(a)(2) of Pub. L. 101-280 provided that:

“(A) For purposes of section 1043 of such Code—

“(i) any property sold before June 19, 1990, shall be treated as sold pursuant to a certificate of divestiture (as defined in subsection (b)(2) thereof) if such a certificate is issued with respect to such sale before such date, and

“(ii) in any such case, the 60-day period referred to in subsection (a) thereof shall not expire before the

end of the 60-day period beginning on the date on which the certificate of divestiture was issued.

“(B) Notwithstanding subparagraph (A), section 1043 of such Code shall not apply to any sale before April 19, 1990, unless—

“(i) the sale was made in order to comply with an ethics agreement or pursuant to specific direction from the appropriate agency or confirming committee, and

“(ii) the justification for the sale meets the criteria set forth in subsection (b)(2)(A) thereof as implemented by the interim regulations implementing such section 1043, published on April 18, 1990.”

**§ 1044. Rollover of publicly traded securities gain into specialized small business investment companies**

**(a) Nonrecognition of gain**

In the case of the sale of any publicly traded securities with respect to which the taxpayer elects the application of this section, gain from such sale shall be recognized only to the extent that the amount realized on such sale exceeds—

(1) the cost of any common stock or partnership interest in a specialized small business investment company purchased by the taxpayer during the 60-day period beginning on the date of such sale, reduced by

(2) any portion of such cost previously taken into account under this section.

This section shall not apply to any gain which is treated as ordinary income for purposes of this subtitle.

**(b) Limitations**

**(1) Limitation on individuals**

In the case of an individual, the amount of gain which may be excluded under subsection (a) for any taxable year shall not exceed the lesser of—

(A) \$50,000, or

(B) \$500,000, reduced by the amount of gain excluded under subsection (a) for all preceding taxable years.

**(2) Limitation on C corporations**

In the case of a C corporation, the amount of gain which may be excluded under subsection (a) for any taxable year shall not exceed the lesser of—

(A) \$250,000, or

(B) \$1,000,000, reduced by the amount of gain excluded under subsection (a) for all preceding taxable years.

**(3) Special rules for married individuals**

For purposes of this subsection—

**(A) Separate returns**

In the case of a separate return by a married individual, paragraph (1) shall be applied by substituting “\$25,000” for “\$50,000” and “\$250,000” for “\$500,000”.

**(B) Allocation of gain**

In the case of any joint return, the amount of gain excluded under subsection (a) for any taxable year shall be allocated equally between the spouses for purposes of applying this subsection to subsequent taxable years.

**(C) Marital status**

For purposes of this subsection, marital status shall be determined under section 7703.

**(4) Special rules for C corporation**

For purposes of this subsection—

(A) all corporations which are members of the same controlled group of corporations (within the meaning of section 52(a)) shall be treated as 1 taxpayer, and

(B) any gain excluded under subsection (a) by a predecessor of any C corporation shall be treated as having been excluded by such C corporation.

**(c) Definitions and special rules**

For purposes of this section—

**(1) Publicly traded securities**

The term “publicly traded securities” means securities which are traded on an established securities market.

**(2) Purchase**

The taxpayer shall be considered to have purchased any property if, but for subsection (d), the unadjusted basis of such property would be its cost within the meaning of section 1012.

**(3) Specialized small business investment company**

The term “specialized small business investment company” means any partnership or corporation which 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).

**(4) Certain entities not eligible**

This section shall not apply to any estate, trust, partnership, or S corporation.

**(d) Basis adjustments**

If gain from any sale is not recognized by reason of subsection (a), such gain shall be applied to reduce (in the order acquired) the basis for determining gain or loss of any common stock or partnership interest in any specialized small business investment company which is purchased by the taxpayer during the 60-day period described in subsection (a). This subsection shall not apply for purposes of section 1202.

(Added Pub. L. 103-66, title XIII, §13114(a), Aug. 10, 1993, 107 Stat. 430; amended Pub. L. 104-188, title I, §1703(a), Aug. 20, 1996, 110 Stat. 1875.)

REFERENCES IN TEXT

Section 301(d) of the Small Business Investment Act of 1958, referred to in subsec. (c)(3), was classified to section 681(d) of Title 15, Commerce and Trade, prior to repeal by Pub. L. 104-208, div. D, title II, §208(b)(3)(A), Sept. 30, 1996, 110 Stat. 3009-742.

AMENDMENTS

1996—Subsec. (c)(2). Pub. L. 104-188 reenacted heading without change and amended text generally. Prior to amendment, text read as follows: “The term ‘purchase’ has the meaning given such term by section 1043(b)(4).”

EFFECTIVE DATE OF 1996 AMENDMENT

Amendment by Pub. L. 104-188 effective as if included in the provision of the Revenue Reconciliation Act of 1993, Pub. L. 103-66, §§13001-13444, to which such amendment relates, see section 1703(o) of Pub. L. 104-188, set out as a note under section 39 of this title.

EFFECTIVE DATE

Section applicable to sales on or after Aug. 10, 1993, in taxable years ending on or after such date, see sec.