



which is without adequate loss experience data. Clarified to provide that reserves for bad debts in excess of ten percent may be established where reasonable. §1.166-4. (Sec. 166, '86 Code.)

Rev. Rul. 64-48, 1964-1 (Part 1) C.B. 104; Rev. Rul. 65-88, 1965-1 C.B. 112.

466.3 Fees and charges; loan transactions. A small business investment company operating under the provisions of the Small Business Investment Act of 1958 and registered as a management company under the Investment Company Act of 1940, may not treat additional fees and charges actually or constructively received from small business concerns in connection with the consummation of a loan agreement as interest income for the purpose of determining whether the small business investment company satisfies the gross income requirements of a regulated investment company. §1.851-1. (Sec. 851, '86 Code.)

Rev. Rul. 68-6, 1968-1 C.B. 325.

466.4 Loans evidenced by convertible debentures. Loan agreements which are evidenced by numbered convertible debentures payable to a company licensed under the Small Business Investment Act or to its registered assigns, or which require that such debentures be fully registered, are "securities" as defined in section 165(g)(2)(C); therefore, section 166 relating to bad debts does not apply to debts evidenced by such loan agreements by reason of section 166(e). However, under section 1243, losses from the sale, exchange, or worthlessness of convertible debentures shall be treated as ordinary losses. §§1.165-5, 1.166-4, 1.1243-1. (Secs. 165, 166, 1243; '86 Code.)

Rev. Rul. 66-321, 1966-2 C.B. 59.

466.5 Losses on sale of stock. In computing losses on the sale of stock in a small business investment company each transaction giving rise to gain or loss should be treated separately. §1.1242-1. (Sec. 1242, '86 Code.)

Rev. Rul. 65-291, 1965-2 C.B. 290.

466.6 Motion picture films; nonrecourse loans. A Small Business Investment Company that is organized as a limited partnership and that finances motion picture films partly from its own funds and partly from the proceeds of nonrecourse loans from the Small Business Administration does not have a qualified investment, for investment credit purposes, in that portion of the films financed by the nonrecourse loans. §§1.48-1, 7.465-2. (Secs. 48, 465; '86 Code.)

Rev. Rul. 79-255, 1979-2 C.B. 17.

466.7 Personal holding company income. A small business investment company is subject to personal holding company tax, if at least 80 percent of its gross income for the taxable year is personal holding company income, and if at any time during the last half of the taxable year more than 50 percent in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. Inapplicable to taxable years beginning after 1958. §§1.541-1, 1.542-1, 1.543-1. (Secs. 243, 541, 542, 543, 1242, 1243; '86 Code.)

Rev. Rul. 59-69, 1959-1 C.B. 142; Rev. Rul. 70-550, 1970-2 C.B. 129.

466.8 Personal holding company tax exemption; wholly owned subsidiary. The exemption from personal holding company tax applicable to a licensed small business investment company described in section 542(c)(8) does not extend to its wholly owned subsidiary. §1.542-1. (Sec. 542, '86 Code.)

Rev. Rul. 73-179, 1973-1 C.B. 296.

466.9 Regulated investment companies; diversification requirements. The shareholders' voting agreements, stock warrants, stock options, stock rights, convertible debentures, and similar rights to purchase stock acquired by a small busi-

Small business investment companies

466.1 Bad debt reserve. No adjustment is required for a reasonable addition to the bad debt reserve in computing taxable income that is includable in investment company taxable income. §1.852-3. (Sec. 852, '86 Code.)

Rev. Rul. 68-668, 1968-2 C.B. 303.

466.2 Bad debt reserve ceiling. Small business investment companies are allowed bad debt reserve ceilings equal to ten percent of their outstanding loans as reasonable reserves for a period often years beginning with 1959, after which the loss experience will be used to determine the reasonableness of further additions to the reserve. After 1968 an average loss experience of the small business investment industry will be used as a basis for such reserves as to a new company or one

ness investment company in connection with its loan agreements do not confer a present right to vote and, therefore, do not constitute "voting securities" even though the borrower's shareholders are required to elect one director designated by the small business investment company. §1.851-2. (Sec. 851, '86 Code.)

Rev. Rul. 66-339, 1966-2 C.B. 274.

466.10 Short sale of stock. A loss incurred on the closing of a short sale of small business investment company stock with subsequently purchased stock acquired solely to close the short sale is not deductible as an ordinary loss under section 1242. The nature of the loss is determined under section 1233, dealing with gains and losses from short sales. §§1.1233-1, 1.1242-1. (Secs. 1233, 1242; '86 Code.)

Rev. Rul. 63-65, 1963-1 C.B. 142.

466.11 Small Business Administration guaranty agreements; debentures. Guaranty agreements issued by the Small Business Administration (SBA) evidencing ownership of Small Business Investment Company debentures sold to investors by the SBA and held by it as bailee are Government securities and obligations. §§1.61-1, 1.851-2, 1.856-2, 1.895-1, 301.7701-13. (Secs. 61, 851, 856, 895, 7701; '86 Code.)

Rev. Rul. 76-426, 1976-2 C.B. 17.

466.12 Stock attribution. Stock in a small business concern held by a small business investment company shall not be attributed through the investment company to its shareholders under the attribution rules of section 544(a) for purposes of determining whether the small business investment company is excepted from the term personal holding company. However, stock of a business concern shall be attributed to an investment company's shareholders when such stock can be attributed to the shareholders through a business concern that is not a small business investment company. §§1.542-3, 1.544-2. (Secs. 542, 544; '86 Code.)

Rev. Rul. 70-551, 1970-2 C.B. 130.

466.13 Stock losses; license to operate suspended. A small business investment company is not entitled to the benefits of sections 1242 and 1243 while its license to operate under the Small Business Investment Act has been suspended by the Small Business Administration. §§1.1242-1, 1.1243-1. (Secs. 1242, 1243; '86 Code.)

Rev. Rul. 62-58, 1962-1 C.B. 158.