

Internal Revenue Service, Treasury

§ 1.1202-1

Alternative Tax Under Section 1201(b)		
(1) Net section 1201 gain (net capital gain for taxable years beginning after December 31, 1976)	\$80,000	
(2) Subsection (d) gain:		
Section 1201(d)(1)	30,000	
Section 1201(d)(2)		
Section 1201(d)(3) (\$50,000 less \$30,000)	20,000	
Total subsection (d) gain	50,000	
(3) Net section 1201 (net capital gain for taxable years beginning after December 31, 1976) gain in excess of subsection (d) gain (\$80,000 less \$50,000)	30,000	
(4) Tax under section 1201(b)(1):		
(i) Taxable income	\$120,000	
(ii) Less: 50% of item (1)	40,000	
(iii) Amount subject to tax under section 1201(b)(1)	80,000	
Partial tax (computed under section 1)	33,340	
(5) Tax under section 1201(b)(2): (25% of item (1) or of item (2), whichever is lesser [25% of \$50,000])	12,500	
(6) Tax under section 1201 (b)(3) on item (3):		
Tax under section 1 on taxable income (\$120,000)	\$57,580	
Less: Tax under sec. 1 on sum of item (4) (iii) (\$80,000) plus 50% of item (2) (\$25,000) (Total \$105,000)	\$48,280	
Tax under section 1201(c)(1)	9,300	
Limitation under section 1201(c) (2)(B) (32½% of item (3))	9,750	\$9,300
(7) Alternative tax under section 1201(b)	55,140	

Example 4. A husband and wife, who file a joint return for the calendar year 1973, have taxable income (exclusive of capital gains and losses) of \$250,000. In 1973 they realize long-term capital gains (not described in section 1201(d) (1) or (2)) of \$140,000 and a short-term capital loss of \$50,000. Since the alternative tax under section 1201(b) is less than the tax otherwise computed under section 1, the tax payable is the alternative tax, that is, \$172,480. The tax is computed as follows:

Tax Under Section 1		
Taxable income exclusive of capital gains and losses	\$250,000	
Net long-term capital gains (100% of \$140,000)	\$140,000	
Net short-term capital loss (100% of \$50,000)	50,000	
Net section 1201 gain (net capital gain for taxable years beginning after December 31, 1976)	90,000	
Total	340,000	
Deduction of 50% of net section 1201 gain (net capital gain for taxable years beginning after December 31, 1976) (section 1202)	45,000	
Taxable income	295,000	
Tax under section 1	177,480	

Alternative Tax Under Section 1201(b)		
(1) Net section 1201 gain (net capital gain for taxable years beginning after December 31, 1976)	\$90,000	
(2) Subsection (d) gain:		
Section 1201(d)(1)		
Section 1201(d)(2)		
Section 1201(d)(3)	50,000	
Total subsection (d) gain	50,000	
(3) Net section 1201 gain (net capital gain for taxable years beginning after December 31, 1976) in excess of subsection (d) gain (\$90,000 less \$50,000)	40,000	
(4) Tax under section 1201(b)(1):		
(i) Taxable income	\$295,000	
(ii) Less: 50% of item (1)	45,000	
(iii) Amount subject to tax under section 1201(b)(1)	250,000	
Partial tax (computed under section 1)	145,980	
(5) Tax under section 1201(b)(2): (25% of item (1) or of item (2), whichever is lesser [25% of \$50,000])	\$12,500	
(6) Tax under section 1201(b)(3) on item (3):		
Tax under section 1 on taxable income (\$295,000)	\$177,480	
Less: Tax under section 1 on sum of item (4) (iii) (\$250,000) plus 50% of item (2) (\$25,000) (Total \$275,000)	163,480	14,000
(7) Alternative tax under section 1201(b)	172,480	

[T.D. 7337, 39 FR 44975, Dec. 30, 1974, as amended by T.D. 7728, 45 FR 72651, Nov. 3, 1980]

§ 1.1202-0 Table of contents.

This section lists the major captions that appear in the regulations under § 1.1202-2.

§ 1.1202-2 Qualified small business stock; effect of redemptions.

(a) Redemptions from taxpayer or related person.

- (1) In general.
- (2) De minimis amount.
- (b) Significant redemptions.

- (1) In general.
- (2) De minimis amount.

(c) Transfers by shareholders in connection with the performance of services not treated as purchases.

(d) Exceptions for termination of services, death, disability or mental incompetency, or divorce.

- (1) Termination of services.
- (2) Death.
- (3) Disability or mental incompetency.
- (4) Divorce.
- (e) Effective date.

[T.D. 8749, 62 FR 68166, Dec. 31, 1997]

§ 1.1202-1 Deduction for capital gains.

(a) In computing gross income, adjusted gross income, taxable income,