**(E)** ***Nonqualified financial property*** -

***(1)*** *In general.* Less than 5 percent of the average of the aggregate unadjusted bases of the [property](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=27e34c207dd55d5b7e7a39597e6962a5&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of such [entity](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3a5c9cc757701db2ecff05d51f149c58&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) is attributable to *nonqualified financial property.* For [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=0ad2de56cb198dce23b0b55179137f16&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of the preceding sentence, the term *nonqualified financial property* means debt, [stock](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=e54d978f4a6926d3a0542809cec66f59&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1), [partnership](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=085835d6cda49ef51ecda9348fc5893e&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) interests, [options](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=5b1852c7dec1bde096105182eeb737e5&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1), futures contracts, forward contracts, warrants, [notional principal contracts](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=5fba01e73b8d0a3750ff79bf979b0f8f&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1), [annuities](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=9c45e548c44cc1c98fbe6b1c2e5d3865&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1), and other similar [property](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=27e34c207dd55d5b7e7a39597e6962a5&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) except that such term does not include -

***(i)*** Reasonable [amounts](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=661fb5529bda5e7b12e0c516a1a1473f&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of [working capital](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=2afd12c6a1e56c41881d94d67b9f2174&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) held in [cash](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3f9f0eb34538240a37fd000621b6a7d5&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1), [cash](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=3f9f0eb34538240a37fd000621b6a7d5&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) equivalents, or [debt instruments](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=5ab08d8c51af1cc851bc13df47cd799b&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) with a term of 18 months or less (because the [definition](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=ccc805519a5c343c7171335a622389f8&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of *nonqualified financial property* includes [debt instruments](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=5ab08d8c51af1cc851bc13df47cd799b&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) with a term in excess of 18 months, banks, credit unions, and other [financial institutions](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=a0ce90faaa092cbf4257505832f4de3c&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) are [generally](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=e4167de3ede96ed6a7655e86ca0cc317&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) excluded from the [definition](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=ccc805519a5c343c7171335a622389f8&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of a *qualified active low-income community business*); or

***(ii)*** [Debt instruments](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=5ab08d8c51af1cc851bc13df47cd799b&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) described in section 1221(a)(4).

***(2)*** *Construction of real property.* For [purposes](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=0ad2de56cb198dce23b0b55179137f16&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of paragraph (d)(4)(i)(E)(*1*)(*i*) of this section, the [proceeds](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=b4283f64cc06d4e1005ead0d2c90aeb9&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of a capital or equity [investment](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=f4998a4d20ab8f091d235ee8704ffd34&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) or loan by a CDE that will be expended for construction of [real property](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=b2c99b7b591d7afac941a58f392a0bb2&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) within 12 months after the date the [investment](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=f4998a4d20ab8f091d235ee8704ffd34&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) or loan is made are treated as a reasonable [amount](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=661fb5529bda5e7b12e0c516a1a1473f&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1) of [working capital](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=2afd12c6a1e56c41881d94d67b9f2174&term_occur=999&term_src=Title:26:Chapter:I:Subchapter:A:Part:1:Subjgrp:7:1.45D-1).