QUALIFIED SMALL BUSINESS STOCK (QSBS): ENHANCED TAX BENEFITS UNDER THE 2025 ONE BIG BEAUTIFUL BILL ACT

Qualified Small Business Stock (QSBS) is a powerful but often overlooked tax incentive for founders, early employees, and investors in high-growth companies. With the passage of the One Big Beautiful Bill Act (OBBBA) in 2025, the rules surrounding QSBS have become more generous and, in some respects, easier to navigate.

What Is QSBS?

QSBS refers to shares in a domestic C corporation that meet specific requirements under Internal Revenue Code §1202. Key criteria include:

- The shares must be acquired directly from the company in exchange for cash, property (other than other stock), or as compensation for services.
- At the time of issuance, the company's total gross assets must not exceed $50 million.
- The corporation must be a C corporation and use at least 80% of its assets in the active conduct of a qualified trade or business.
- Certain industries are excluded, such as professional services, financial services, hospitality, farming, oil and gas extraction, and real estate.
- Shares must generally be held for more than five years to qualify for the full

exclusion.

Benefits of QSBS

The primary advantage of QSBS is the ability to exclude a significant portion, sometimes all, of the capital gain upon sale from federal income tax. The percentage of exclusion depends on the acquisition date:

- 100% exclusion for stock acquired after September 27, 2010
- 75% exclusion for stock acquired between February 18, 2009, and September 27, 2010
- 50% exclusion for stock acquired between August 11, 1993, and February 17, 2009

The amount of gain eligible for exclusion is capped at the greater of $10 million or 10 times the adjusted basis in the stock, per issuer and taxpayer. Careful planning-such as gifting QSBS to non-grantor trusts can, in some cases, multiply the exclusion, though anti-abuse aggregation rules apply.

For 100% exclusion shares, the gain is not subject to the Alternative Minimum Tax (AMT).

Limitations and Risks

- Strict qualification rules - Original issuance, the $50 million asset cap, and active business requirements are closely monitored.
- Holding period - The standard five-year requirement may delay liquidity.
- Per-issuer cap - The $10 million or 10x basis limit applies per taxpayer, per issuer.
- State conformity - Not all states follow the federal QSBS rules.
- Ownership structure pitfalls - Transfers to partnerships or S corporations can disqualify QSBS status. Gifting strategies require careful planning.

Changes Under the One Big Beautiful Bill (2025)

The OBBBA introduced several notable updates:

1. Higher per-issuer cap - Increased from $10 million to $15 million for newly acquired QSBS, indexed for inflation starting in 2026.
2. Shorter holding period for partial exclusion - For new QSBS, the holding period drops from five years to three years, with a tiered benefit:
   - 3 years: 50% exclusion
   - 4 years: 75% exclusion
   - 5 years: 100% exclusion
3. Clarification of technical rules - Includes treatment of QSBS in certain reorganizations, basis calculations for contributed property, and application to pass-through entities.
4. Inflation adjustments - Both the $15 million cap and the $75 million gross asset test will be adjusted for inflation, effective in 2026.
5. Technical safeguards - Measures to prevent abuse through basis shifting or multiple trusts.

Action Steps for Maximizing QSBS Benefits

- **For Founders:** Issue shares to yourself early, ensure proper C corporation election, and document the $50 million asset test compliance
- **For Employees:** Understand your equity compensation structure and consider early exercise options where available
- **For Investors:** Verify QSBS eligibility before investing and structure investments to maximize qualification
- **For Tax Planning:** Consider gifting strategies and trust structures to multiply exclusion benefits across family members

Conclusion

QSBS remains one of the most significant tax incentives available to high-growth companies and their shareholders. The OBBBA has enhanced its benefits while refining its technical framework. Given the complexity of the rules and the potential for substantial tax savings, proactive planning and consultation with a qualified tax advisor are essential. Contact your BMF tax advisor to develop a comprehensive QSBS strategy tailored to your specific situation and ensure you maximize these valuable tax benefits.