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QSBS Benefits Expanded under One Big Beautiful Bill Act

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In July 2025, Congress passed, and the President signed, the One Big Beautiful Bill Act (the "OBBBA"). The OBBBA includes a major overhaul of the Qualified Small Business Stock ("QSBS") rules under Internal Revenue Code Section 1202, representing the first substantial update in over a decade. The OBBBA expands the benefits applicable to QSBS acquired after July 4, 2025.

QSBS Generally

QSBS is a tax benefit that applies to eligible shareholders of certain small businesses. The QSBS tax exclusion allows eligible taxpayers to exclude a portion of the capital gains realized from the sale or exchange of QSBS from their federal taxes. To qualify as QSBS, several criteria must be met, as set forth below:

- the company must be a domestic c-corporation issuing original stock to the taxpayer;
- at and immediately after issuance, the company's aggregate gross assets must not exceed a specified threshold;
- at least 80% of the company's assets must be used in the active conduct of a qualified trade or business; and
- the shareholder must hold the stock for a minimum period before selling.

QSBS Rules Pre-OBBBA

Prior to the OBBBA, taxpayers were generally permitted to exclude from taxable income capital gains attributable to the disposition of QSBS that was held for more than 5 years. Exclusion percentages were tiered depending on the acquisition date and capped at the greater of \$10 million or 10 times the taxpayer's tax basis.

Changes under the OBBBA



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The OBBBA enhances key areas of the QSBS rules to be more favorable to taxpayers by:

- shortening the holding period;
- tiering the gain exclusion based on the holding period, rather than the issuance date;
- increasing the gross asset value limitation; and
- increasing the cap on capital gains.

A side-by-side comparison of these key areas pre-OBBBA and under the OBBBA is detailed in the chart below.

Item	Pre-OBBBA	OBBBA
Holding period	> 5 years	> 3 years
Tiered gain exclusion		
100%	stock acquired after September 27, 2010	stock held for 5 or more years
75%	stock acquired after February 17, 2009 and on or before September 27, 2010	stock held for 4 years
50%	stock acquired on or before February 17, 2009	stock held for 3 years
Cap on gain exclusion	greater of \$10 million (\$5 million for married taxpayers filing separately) or 10 times the taxpayer's tax basis in the QSBS	greater of \$15 million (\$7.5 million for married taxpayers filing separately), (inflation adjustments begin 2027), or 10 times the taxpayer's tax basis in the QSBS
Gross assets limit	\$50 million	\$75 million (inflation adjustments begin 2027)

Practical Impact of the QSBS Changes under the OBBBA

The OBBBA makes QSBS more flexible, more generous, and more widely applicable, **but only for stock issued after July 4, 2025**. For founders, investors and employees this means:

- earlier liquidity options: with partial exclusions at 3 and 4 years, earlier exits or secondary sales are more attractive;
- higher excluded gains: the increased cap helps high-growth exits reach greater tax-free profits; and
- qualification of more companies: with an increased gross asset limit, the pool of eligible businesses has been expanded.

Prior shareholders benefit only from the legacy rules if they acquire new stock.

If you have any questions about the changes to QSBS, please contact the author or another member of the Rich May team.

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorney [Kayla Perry](#).

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