

## The One Big Beautiful Bill Act Expands QSBS Benefits

July 11, 2025

The One Big Beautiful Bill Act (OBBBA), which was signed into law on July 4, 2025, significantly expands the tax exemption under Internal Revenue Code Section 1202 for qualified small business stock (QSBS) acquired after the OBBBA's enactment date (i.e., July 4, 2025).<sup>1</sup>

Below is a side-by-side comparison of the prior QSBS rules and the changes under the OBBBA:

Summary of changes	Prior law (stock acquired on or before July 4, 2025)	OBBBA (stock acquired after July 4, 2025)
Reduced required holding period	More than five years	At least three years
Tiered gain exclusion percentages <sup>2</sup>	<ul> <li>100% for stock acquired after September 27, 2010</li> <li>75% for stock acquired after February 17, 2009, and before September 28, 2010</li> <li>50% for stock acquired before February 18, 2009</li> </ul>	<ul> <li>50% for stock held for three years</li> <li>75% for stock held for four years</li> <li>100% for stock held for five years or more</li> </ul>
Increased cap on the 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), adjusted for inflation beginning in 2027, or 10 times the taxpayer's tax basis in the QSBS
Increased gross assets limit <sup>3</sup>	\$50 million	\$75 million (adjusted for inflation beginning in 2027)

An earlier version of the OBBBA, released by the Senate Finance Committee (SFC) on June 16, 2025 (SFC bill), was discussed in our <u>June 20 alert</u>. The final version of the OBBBA retains the QSBS provisions from the SFC bill without modification.

Startups, companies and investors should consider how the enhanced QSBS benefits may affect prospective financings and investments.

## Notes

1. The "acquisition date" of QSBS for this purpose is the date the stock is acquired for cash, property or

- services, but includes the holding period of stock acquired in certain carryover basis transactions, such as tax-deferred reorganizations and contributions to capital. The definition of "acquisition date" in the OBBBA precludes taxpayers from exchanging QSBS that would not qualify for the OBBBA expansions for new QSBS that would so qualify.
- 2. The portion of gain that remains taxable under the QSBS rules is subject to a 28% tax rate, rather than the standard 20% long-term capital gains rate. As a result, the effective tax rate is 14% for a 50% gain exclusion and 7% for a 75% gain exclusion, respectively (without considering the 3.8% net investment income tax).
- 3. A corporation's "aggregate gross assets" (cash and the tax basis of other property held by the corporation) must not exceed such limit at all times before and immediately after the issuance of the QSBS.

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