

Changes to QSBS Rules

As if QSBS wasn't good enough already, the "Big Beautiful Bill" signed into law by President Trump on July 4, 2025 enacts significant, founder-friendly changes to Section 1202 of the Internal Revenue Code, which substantially expand the availability and flexibility of this tax benefit. It is important to note that the changes only apply prospectively to QSBS acquired after the enactment of the law, so existing QSBS is still governed by the prior rules.

The key changes include:

- Higher Gain Exclusion – The \$10 million per-issuer capital gain exclusion has been raised to \$15 million, indexed for inflation starting in 2026.
- Tiered Gain Exclusion – Under current law, taxpayers must hold QSBS for more than 5 years to qualify for 100% capital gain exclusion. The new law allows partial gain exclusion after shorter holding periods:
 - 50% exclusion for stock held \geq 3 years
 - 75% exclusion for stock held \geq 4 years
 - 100% exclusion for stock held \geq 5 years
- Expanded Eligibility – The threshold for qualifying as a "qualified small business" has increased from \$50 million to \$75 million in aggregate gross assets at the time of stock issuance, also indexed going forward.

For founders who have recently formed companies, it may make sense to consider issuing additional equity that would benefit from these new rules. Gifting strategies to multiply QSBS exemptions ("stacking") remain viable and will now permit even more tax savings. The Founder Focus team stands ready to assist with your tax planning needs and to answer any questions about how these changes will impact you.

Patterson Belknap has a multi-disciplinary team of lawyers who are focused on the legal needs of founders and entrepreneurs. A description of the full range of our services and attorney contacts can be found [here](#). Please visit the [Founder Focus Resource Center](#) for more content on a broad range of topics of interest to founders and their professional advisors.

This alert is for general informational purposes only and should not be construed as specific legal advice. If you would like more information about this alert, please contact the following attorney or call your regular Patterson contact.

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