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# **QSBS 2025**

## **Tiered Tax Exclusions**





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The One Big Beautiful Bill Act (OBBBA) delivers transformative enhancements to Qualified Small Business Stock (QSBS) under Section 1202, redefining how founders, investors, and PE funds approach exit planning and valuation.

These reforms aren't just incremental, they're reshaping the economics of startup investing and M&A structuring.

### **1. Earlier Liquidity with Tiered Holding Periods**

Under the OBBBA 2025 framework, Qualified Small Business Stock (QSBS) issued on or after July 4, 2025 will follow a tiered capital gain exclusion schedule:

- 50% exclusion after 3 years
- 75% exclusion after 4 years
- 100% exclusion after 5 years

This replaces the previous 5-year cliff model, allowing investors to unlock earlier liquidity while still accessing meaningful tax benefits. The change is expected to influence exit planning, especially for founders, angel investors, and private equity funds seeking more flexible timelines.

### **2. Larger Tax Benefits with Increased Caps**

- The lifetime per-issuer cap will raise from \$10M → \$15M.
- The 10× basis limitation stays the same.
- The new \$15M cap is inflation-indexed beginning 2027, which provides long-term flexibility for founders, angels, and fund LP/GP arrangements.



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### **3. Broader Eligibility — More Companies Are Eligible**

- Asset limit for the issuer increases from \$50M → \$75M (also inflation-indexed beginning 2027).
- This update makes more capital-intensive and larger startups, as well as PE-backed portfolio companies, eligible for QSBS.

### **Private Equity and Startups: Why This Matters**

- Faster secondary sales and exits, Investors can realize partial exclusions without waiting five years.
- Because there are additional qualifying companies, there are additional deal opportunities centered around QSBS benefits.
- More planning, Broader eligibility and greater caps provide for more sophisticated portfolio strategies.

### **Key Takeaway:**

With OBBBA 2025, QSBS is now more powerful, more flexible, and more valuable than ever, enabling tax-efficient exits and unlocking broader investment opportunities for funds and founders alike.



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