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One Big Beautiful Bill Act Expands Qualified Small Business Stock Exclusion

On July 4, 2025, President Trump signed the “One Big Beautiful Bill Act” into law. Among notable tax legislation, the act expanded the qualified small business stock exclusion, potentially making C Corporation tax status a favorable solution for certain startups.

Qualified Small Business Stock Exclusion prior to the One Big Beautiful Bill Act

Generally, for taxpayers other than a corporation, Internal Revenue Code Section 1202 provides that gross income does not include 50% of gain from the sale or exchange of “Qualified Small Business Stock” held for more than five years. For stock acquired after September 27, 2010, the exclusion is 100%. The exclusion has a per issuer limitation of the greater of \$10 million or 10 times the adjusted basis of the stock (without regard to additions to basis after the date the stock was originally issued).

“Qualified Small Business Stock” is defined as stock in a C Corporation, acquired at original issue for money, property, or services (not stock). The issuing corporation must be a “Qualified Small Business” and must meet an active business test for substantially all of the taxpayer’s holding period. A “Qualified Small Business” is defined as a business with gross assets that do not exceed \$50 million at all times between August 10, 1993, and immediately after issuance of the stock. The active business test provides that at least 80% of assets (by value) must be used in the active conduct of a “Qualified Trade or Business,” which excludes many service businesses, such as law firms, accounting firms, and medical practices.

One Big Beautiful Bill Act updates to Qualified Small Business Stock Exclusion

The act provides for three notable changes to Internal Revenue Code Section 1202.

1. **Tiered holding period requirements.** For stock acquired after July 4, 2025, a partial exclusion is now available if stock is held for at least three years. For stock held for three years, the exclusion is 50%; for stock held for four years, the exclusion is 75%; and for stock held for five years or more, the exclusion is 100%.
2. **Increased per issuer limitation.** For stock acquired after July 4, 2025, the per issuer limitation is increased to \$15 million, with annual inflation adjustments.
3. **Increased gross asset limitation.** For stock issued after July 4, 2025, the act increases the gross asset limitation to qualify as a “Qualified Small Business” from \$50 million to \$75 million, with annual inflation adjustments.

What this means to you

Founders of new startups should carefully consider the most beneficial choice of entity and tax status. The expansion of the qualified small business stock exclusion is a factor to consider that may make C Corporation tax status advantageous for certain founders expecting a sale after at least three years.

Contact us

Taxpayers considering establishing a new business entity should consult with their tax advisor on the advantages and disadvantages of each available tax status. If you have questions regarding the impact of the expanded qualified small business stock exclusion, please contact Kevin Erb or a member of Husch Blackwell’s tax law team.