

## What Is QSBS?

As a startup investor or founder in the United States, do you know how to legally pay zero taxes when your company is sold? Many don't realize there is a massive wealth-preservation tool built directly into the tax code.

Under IRC §1202, Qualified Small Business Stock (QSBS) gives founders and early investors a path to exclude up to 100% of federal capital gains on exit - meaning the first \$15 million of gain can be completely tax-free at the federal level.

After three decades of incremental refinement, the One Big Beautiful Bill Act (signed July 2025) delivers the largest expansion in QSBS history - making more companies eligible, accelerating partial exclusions, and raising the per-investor cap.

**\$5M more shielded per investor · Larger companies qualify · Partial exits in as little as 3 yrs**

## What Changed Under the New Law

	Previous Rules	New Rules (One Big Beautiful Bill Act)
<b>Holding Period</b>	Rigid 5-year cliff	<b>Tiered exclusions: 50% at 3 yrs · 75% at 4 yrs · 100% at 5+ yrs</b>
<b>Max Company Size</b>	\$50M in gross assets	<b>\$75M (indexed for inflation from 2027)</b>
<b>Tax-Free Cap</b>	\$10M per investor	<b>\$15M per investor</b>

# THE RULES OF THE QSBS GAME

Not every company or investor qualifies. The rules are specific. Getting them wrong means leaving millions on the table.

## Who Qualifies

- Domestic C-Corp at issuance
- Stock acquired at original issue (not secondary)
- ≥80% of assets in active business
- Individual shareholders only — \$15M cap per issuer

## Who Doesn't Qualify

- S-Corps or LLCs (unless converted to C-Corp)
- Professional services: law, health, engineering, accounting
- Hospitality, farming, banking, insurance, mining
- Corporate shareholders

## State-Level Conformity

Whether your state conforms to §1202 determines if you also owe state capital gains. The difference can be millions.

### Conforming States

30+ states including NY · NJ · CO · IL · WA · MA · TX<sup>1</sup>  
Fully recognize the federal QSBS exclusion.

**State capital gains tax: \$0**

### Non-Conforming States (Full State Tax)

CA · PA · AL · MS · OR · DC  
Full state tax applies on gain.

#### High-Tax

CA (13.3%), DC (10.75%), OR (9.9%)

#### Moderate-Tax

AL (5.0%), MS (4.0%), PA (3.07%)

**State capital gains tax: Full rate applies**

1993

2010

2025

§1202 Enacted

100% Exclusion

OBBBA Expansion

# WHY YOUR ZIP CODE IS WORTH UP TO \$5.5M+ UNTAXED GAIN

Your state of residence can determine whether you keep an extra \$2M+ on a qualifying exit.

## Illustrative Scenario

A founder exits a qualifying C-Corp at a \$100M valuation, holding 15% of the company. Total payout: \$15M - fully within the new QSBS exclusion cap.<sup>1</sup>

### The 30+ Conforming States

Federal Capital Gains Tax     **\$0**

State Capital Gains Tax         **\$0**

---

**Total Tax**                             **~\$0**

(Tax Savings @23.8% Fed. Tax: \$3.57M)

### The 6 Non-Conforming States

(CA,PA,AL,MS,OR,DC)

Federal Capital Gains Tax     **\$0**

State Capital Gains Tax         **\$1.99M**  
(e.g. CA 13.3%):

---

**Total Tax**                             **~\$1.99M**

**Same exit. Same federal rules. Up to ~\$2M in tax savings based solely on state of residence.**

## The Bottom Line

Most founders and investors know QSBS exists. Far fewer realize the 2025 law changes everything, or that their zip code could literally cost them millions.

The new tiered exclusion means you no longer need to hold for five full years to benefit. The raised cap means more of your gain is shielded. And the indexed asset ceiling means the program grows with the economy.

Not every state plays along. If you're building in California, Pennsylvania, or any other non-conforming state, you could face nearly \$2M in state taxes that a founder in one of the 46 conforming states would avoid entirely.

For deep tech founders navigating liquidity events, QSBS planning is no longer optional. It's one of the most consequential financial decisions you'll make.