

JULY 2025

BIG BEAUTIFUL BILL INCLUDES IMPORTANT CHANGES TO QUALIFIED SMALL BUSINESS STOCK RULES

If you have any questions about this Client Alert, please contact:

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On July 4, 2025, the One Big Beautiful Bill Act ("OBBA") was signed into law. Among its numerous provisions were important changes to the current tax provisions applicable to qualified small business stock ("QSBS"). These changes present even greater opportunities for founders and investors to take advantage of the favorable tax treatment offered by the QSBS provisions.

Under prior law, Section 1202 of the Internal Revenue Code allowed taxpayers to exclude gain from the sale of stock qualifying as QSBS equal to the greater of \$10 million or 10 times the holder's aggregate basis in stock of the issuer if the taxpayer held the stock for more than five years. One of the requirements for stock to be treated as QSBS was that the company's gross assets not exceed \$50 million at all times before and immediately after the issuance.

For stock issued on or after July 4, 2025, the following changes to the above rules will apply:

- The five-year holding period requirement for QSBS has been replaced with a multi-tiered system, with a 50% exclusion for stock held for at least three years, a 75% exclusion for stock held for at least four years, and the full 100% exclusion for stock held for at least five years.
- The per-issuer gain exclusion cap has been increased from \$10 million to \$15 million and will be adjusted for inflation starting in 2027 (the alternative (if greater) 10 times basis test has not been changed.)
- The limitation on the issuing company's aggregate gross assets has been increased from \$50 million to \$75 million and will also be adjusted for inflation starting in 2027.

As noted above, the new rules only apply to stock issued on or after July 4, 2025, and the OBBA contains provisions limiting the ability of taxpayers to exchange stock issued prior to that date for stock issued on or after that date.

If you have any questions regarding these and any other tax changes made by the OBBA, please do not hesitate to contact Scott McClure (Wiggin and Dana Tax) or your current Wiggin and Dana contact.