OBBBA's Changes to QSBS Will Transform Capital Strategy

By Jay L. Taylor, Shareholder, Anderson Kill P.C.

On July 4, 2025, President Donald Trump signed into law the One Big Beautiful Bill Act (OBBBA). OBBBA significantly enhanced the Qualified Small Business Stock (QSBS) provisions under Section 1202 of the Internal Revenue Code (IRC). QSBS was designed to encourage investment in certain small businesses. Prior to OBBBA, it allowed eligible investors to exclude a significant portion (up to 100% in some cases) of the capital gains realized from the sale of QSBS, provided the stock was held for more than five years, with a $10 million "per-issuer" limit. In order to qualify, the stock must be issued by a domestic C-Corporation with gross assets of $50 million or less at the time of issuance. The business must also conduct a qualified trade or business.

The OBBBA introduced three major improvements: a tiered gain exclusion system (50% exclusion for 3+ years, 75% for 4+ years, and 100% for 5+ years), an increased per-issuer gain exclusion cap from $10 million to $15 million, and a raised aggregate gross assets threshold from $50 million to $75 million. Both the cap and the threshold will be adjusted for inflation starting in 2027, also a new feature of QSBS. Importantly, investments made prior to the enactment date remain subject to the old $10 million cap even if sold after the new law takes effect.

The changes provide substantial flexibility for founders and investors. They encourage early-stage investments by providing graduated tax benefits prior to the previously required five-year mark. This provides greater opportunities for emerging companies to raise capital and scale. The legislation creates significant opportunities for startups and their investors. Careful planning is essential and includes reviewing current QSBS holdings, maintaining documentation due to expected increased IRS scrutiny, and consulting with tax advisors to optimize timing and integrate QSBS into broader tax and business strategies.

What OBBBA's QSBS Amendments Could Mean for Corporate Strategies

OBBBA has fundamentally reshaped the landscape for QSBS and for growing companies. The three transformative modifications will drive significant shifts in corporate behavior. These shifts will have a significant impact on how capital is deployed and the service infrastructure that supports its deployment. That service infrastructure includes accountants, lawyers and a host of other third party service providers.

Replacement of the rigid five-year requirement with a graduated system, offering 50% exclusion at just three years, 75% at four years, and 100% at five years, will fundamentally alter exit planning for founders and corporate boards and for capital allocation strategies by accelerating exits. This could have net positive benefits as companies pursue strategic M&A transactions and IPOs earlier, within a 3-4 year window, instead of waiting for the benefit of holding their interest the full five years. Given the higher limits, substantial tax benefits remain available to stakeholders prior to the previously mandated 5 year holding period. This could compress traditional business development cycles and encourage more aggressive growth strategies to maximize the graduated benefits.

Increased Per-Issuer Exclusion and Expanded Thresholds

An increase in the per-issuer exclusion ceiling from $10 million to $15 million, with inflation adjustments, requires a strategic adjustment to both personal and corporate financial planning imperatives, including potential adjustments for wills and trusts as expectations increase. In conjunction with the higher asset threshold of $75 million, companies can be expected to likely pursue significantly larger Series funding rounds without jeopardizing QSBS eligibility. This "expanded runway" approach may become standard practice. Companies approaching the $75 million threshold may implement more sophisticated asset optimization strategies, potentially spinning off non-core assets or restructuring operations to maintain QSBS qualification longer. The additional headroom for capital raising and growth may also encourage more complex acquisition structures, allowing companies to consolidate market positions while preserving QSBS benefits.

Transition from Old to New Thresholds

Pre OBBBA investment will remain subject to the $10 million cap, regardless of the timing of sale. This will inevitably create an interesting "two-track" strategic environment. Companies with significant pre-OBBBA equity will quickly look for liquidity events to capture available benefits under existing caps so they can explore future investments under OBBBA's new framework. Businesses will likely pursue complex recapitalization strategies, potentially creating new share classes or implementing management buyouts to take advantage of the enhanced QSBS provisions for future equity issuances. Companies may also redesign employee stock option programs and founder equity structures to maximize the tiered benefits, potentially accelerating vesting schedules or modifying equity grant timing.

Sector-Specific Strategic Adaptations

Different industries will likely respond uniquely to these changes. In the technology sector, software and SaaS companies, traditionally asset-light, may pursue more aggressive customer acquisition and infrastructure investment strategies, leveraging the expanded asset threshold to build larger, more defensible market positions. Manufacturing and hardware companies are capital-intensive businesses. They will likely reconsider QSBS strategies, as the higher asset threshold makes QSBS qualification feasible for companies previously excluded due to equipment and inventory requirements. Professional services and consulting firms may explore conversion to C-corporation structures to access QSBS benefits, fundamentally altering traditional partnership models. There will likely be more conversions from limited liability companies (LLCs) to C-Corps, and that will mean an explosion of demand for corporate law services and infrastructures, as fulfillment of the documentation requirements and corporate governance structures must remain beyond reproach.

Risk Management and Compliance

A proliferation of QSBS claims will likely lead to increased IRS scrutiny as the commission seeks to verify compliance. Enhanced scrutiny will drive significant changes in corporate governance and documentation practices. Companies will be forced to implement more robust QSBS tracking systems, formalize board-level QSBS oversight committees, and establish proactive relationship management with specialized tax advisors. Comprehensive record-keeping and QSBS attestation letter protocols will become standard corporate governance practices. This will give rise to a more sophisticated QSBS compliance infrastructure and third party provider network.

Recommendations for Corporate Leadership

Immediate strategic consultation and planning should focus on the following:

(i) **Corporate Structure Analysis:** Evaluate whether conversion to a C-corporation, or other restructuring, could unlock QSBS benefits. Founders will need to evaluate whether existing LLC structures, and other business forms, should be changed, after reviewing many factors.

(ii) **Capital Planning Optimization:** Redesign funding strategies to maximize the expanded thresholds and tiered benefits. This will require a detailed strategic review and analysis by tax specialists and accountants to ensure compliance with OBBBA.

(iii) **Exit Strategy Recalibration:** Founders and boards will reassess timing considerations to determine optimal liquidity, considering the new schedule.

(iv) **Stakeholder Communication:** Companies should immediately issue new communications to all stakeholders regarding the new QSBS rules and hold a special meeting to assess whether the new rules support strategic changes. Companies should also develop comprehensive investor education programs regarding the enhanced QSBS landscape.

Key Takeaways

The OBBBA's QSBS enhancements represent a paradigm shift for entrepreneurial ventures, requiring sophisticated strategic adaptation to fully capitalize on these significantly expanded tax advantages. The flexibility of achieving meaningful tax benefits on shorter timeframes will likely make QSBS-eligible investments more attractive to venture capital and private equity firms, potentially increasing valuations and competition for deals. QSBS may yet accelerate economic growth and meet its intended goals. Companies that proactively restructure their strategies around these new frameworks will likely achieve significant competitive advantages in capital raising, talent acquisition, and exit value optimization.