



TOPLINE: The One Big Beautiful Bill (OB3) relaxed certain rules regarding what counts as qualified small business stock (QSBS), allowing more QSBS sales by original-issue shareholders to qualify for capital gains exclusions.

BACKGROUND: The tax code excludes from capital gains taxes certain sales of qualifying original-issue stock of smaller corporations. To qualify for the exclusion, certain conditions must be met. The stock of the small corporation must have been sold by an individual (or other non-corporate taxpayer) who acquired it as part of the original issue of the corporation's stock (e.g., equity stakes of original investors or stock-based compensation of founding employees of a small corporation). At least 80% of the company's assets must be used in the qualifying trade or business (but certain service businesses such as in health, law, or engineering [where](#) "the principal asset... is the reputation or skill... of its employees" do *not* qualify).

[Prior to OB3](#), the exclusion could only apply if the corporation had less than \$50 million in gross assets at the time of the original stock issuance and if the stock was held for at least 5 years. The maximum exclusion (prior to OB3) was the greater of \$10 million or 10-times the taxpayer's basis in the property.

What OB3 Did:

- [Relaxed](#) the threshold for qualifying for the QSBS exclusion from \$50 million in gross assets at the time of the stock issuance to \$75 million in gross assets.
- [Increased](#) the maximum exclusion amount from \$10 million to \$15 million.
- [Added](#) inflation adjustments to both the gross asset threshold and the maximum exclusion amount.
- [Added](#) a phase in, so QSBS held for 3 years qualifies for a 50% exclusion and QSBS held for 4 years qualifies for a 75% exclusion (keeping a 100% exclusion for 5 years).
- [Made](#) the changes apply to stock issued after July 4, 2025.

Why It Matters?

- Corporate profits are taxed at 21% (plus state taxes). An extra 20% capital gains tax (plus state taxes) on investors and entrepreneurs who help start new corporations reduces American dynamism by making the risk seem greater than the reward.
- OB3's expansion of the small business stock gain exclusion is a [\\$17 billion](#) tax cut over 10 years, according to JCT estimates.

Where Can I Find the Changes? OB3 Sec. [70431](#); [26 U.S.C. § 1202](#).

BOTTOMLINE: New corporations create jobs, pay wages, and provide competition and innovation that help drive down consumer prices. Congress should continue reducing the tax and regulatory burdens that stand in businesses' way.

