STAR MOUNTAIN CAPITAL



Lower Middle-Market Tax Benefits:

Expansion of the Qualified Small Business Stock ("QSBS") program

August 2026

Investing in the Growth Engine of America®

LMM Tax Benefits Under the One Big Beautiful Bill Act

QSBS Expansion Under the One Big Beautiful Bill Act

While the One Big Beautiful Bill Act ("OBBBA") spans a wide array of economic, social, and regulatory initiatives, one of its most impactful and arguably underappreciated features is its expansion of the Qualified Small Business Stock ("QSBS") program.

Signed into law 2025, the expansion of the QSBS program aims to strengthen long-term private investment in U.S.-based companies, allowing for significant tax advantages to private companies and investors operating in the lower middle-market ("LMM").

Gross Asset Threshold Increased

As a result, the gross asset threshold for eligibility has increased from $50 million to $75 million effective for stock issues after July 4th 2025.[1] Beginning in 2027, the threshold will be indexed for inflation, meaning the $75 million cap will increase gradually over time to account for rising prices, and maintain eligibility for companies as valuations naturally grow.[1]

Holding Period Flexibility

Previously, QSBS rules allowed eligible investors to exclude up to 100% of capital gains only if the stock was held for more than five years.[2] This framework has expanded under the OBBBA to offer flexibility through a tiered exclusion system where investors can realize partial tax exclusions for shorter hold periods.[3]

Hold Period		Tiered Exclusion
3 Years	➤	50%
4 Years	➤	75%
5 Years	➤	100%

Enhanced Tax Shield

Additionally, the legislation increased the lifetime gain exclusion cap from the greater of $10 million or 10x basis to the greater of $15 million or 10x basis per taxpayer.[3] This cap limits the total amount of QSBS gain that an investor can fully exclude from federal capital gains tax for each qualifying company. For example, if an investor realizes $20 million in capital gains from the sale of a QSBS held for more than five years, the enhanced provisions under the OBBBA allow up to $15 million or 10x basis of that gain to be excluded from federal capital tax gain with 100% exclusion. The excluded gain is also exempt from the Alternative Minimum Tax ("AMT") and may qualify for state-level exclusions as well.[4]

Key Takeaways

$75 mm	$15 mm	100%
New Asset Max Threshold	Max Tax Exclusion	5-Year Exclusion

The updated framework of the OBBBA not only creates powerful tax incentives, but also directly aligns with the core strategy of funds focused on LMM investing. Further enhancing its impact is the valuation arbitrage opportunity in the LMM, where investors can target small businesses valued at 5-10x EBITDA and, through operational improvements, governance, and both organic and inorganic growth strategies, potentially transform them into 10- 20x EBITDA multiple middle-market businesses.

The expanded gross asset limit of $75 million aligns with Star Mountain's target sweet spot of LMM businesses generating $15 - $75 million in revenue and enables Star Mountain to potentially integrate QSBS tax planning into its investment process to further enhance investors' total returns without pivoting the strategic focus on value creation. More than 50% of Star Mountain's portfolio companies align with the expanded QSBS qualification thresholds, positioning a significant portion of Star Mountain's investment strategy to benefit from the enhanced tax framework.

> "The expansion of the QSBS program creates an excellent opportunity to advance the job creation and aligned investment benefits of established U.S. small and medium-sized businesses, particularly as investors seek value-oriented alternatives to diversify their portfolios."

- David Javdan, Star Mountain Senior Advisor, *Managing Director at Alverez & Marsal, Board Member of the U.S. Chambers of Commerce and former IC Member of the SBIC program.*

Endnotes & General Disclosures

Endnotes

1. QSBS Benefits Expanded Under One Big Beautiful Bill Act. https://natlawreview.com/article/qsbs-benefits-expanded-under-one-big-beautiful-bill-act
2. Significant Changes by the One Big Beautiful Bill Act to the Qualified Small Business Stock Provisions of Section 1202. https://perkinscoie.com/insights/update/significant-changes-one-big-beautiful-bill-act-qualified-small-business-stock
3. Changes to QSBS under the OBBBA. https://mbakertaxlaw.com/changes-to-qsbs-under-the-obbba/
4. Publication 550 (2024), Investment Income and Expenses. https://www.irs.gov/publications/p550#en_US_2023_publink100010597

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Investments in private funds, including LMM private credit funds, involve significant risks, including the risk of loss of capital. These investments are illiquid, speculative, and not subject to the same regulatory requirements as mutual funds or other registered investment products. There is no assurance that investment objectives will be achieved, and past performance is not indicative of future results. Statements regarding default rates, recovery rates, or structural protections in the LMM credit space are based on historical data and should not be interpreted as guarantees. Any investment should be made only after a careful review of the relevant offering documents and consultation with independent advisors.

For further information, please reach out to: ThoughtLeadership@StarMountainCapital.com

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About Star Mountain:

Star Mountain is a ~$5 billion (as of 6/30/26 inclusive of debt facilities) specialized LMM investor providing: (i) Strategic Debt & Equity Capital to private businesses that have at least $15 million of revenue or under $50 million of EBITDA and (ii) Liquidity Solutions to investors and fund managers ("Secondaries") including purchasing LP interests and direct investments in LMM private credit and private equity funds in addition to providing fund managers with NAV loans.

Since 2010, Star Mountain has completed approximately 350 direct investments and 50 secondary/fund investments in the North American lower middle-market and has been recognized as one of the Inc. 5000 fastest-growing private companies and a Best Place to Work by Crain's New York Business and Pensions & Investments.

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