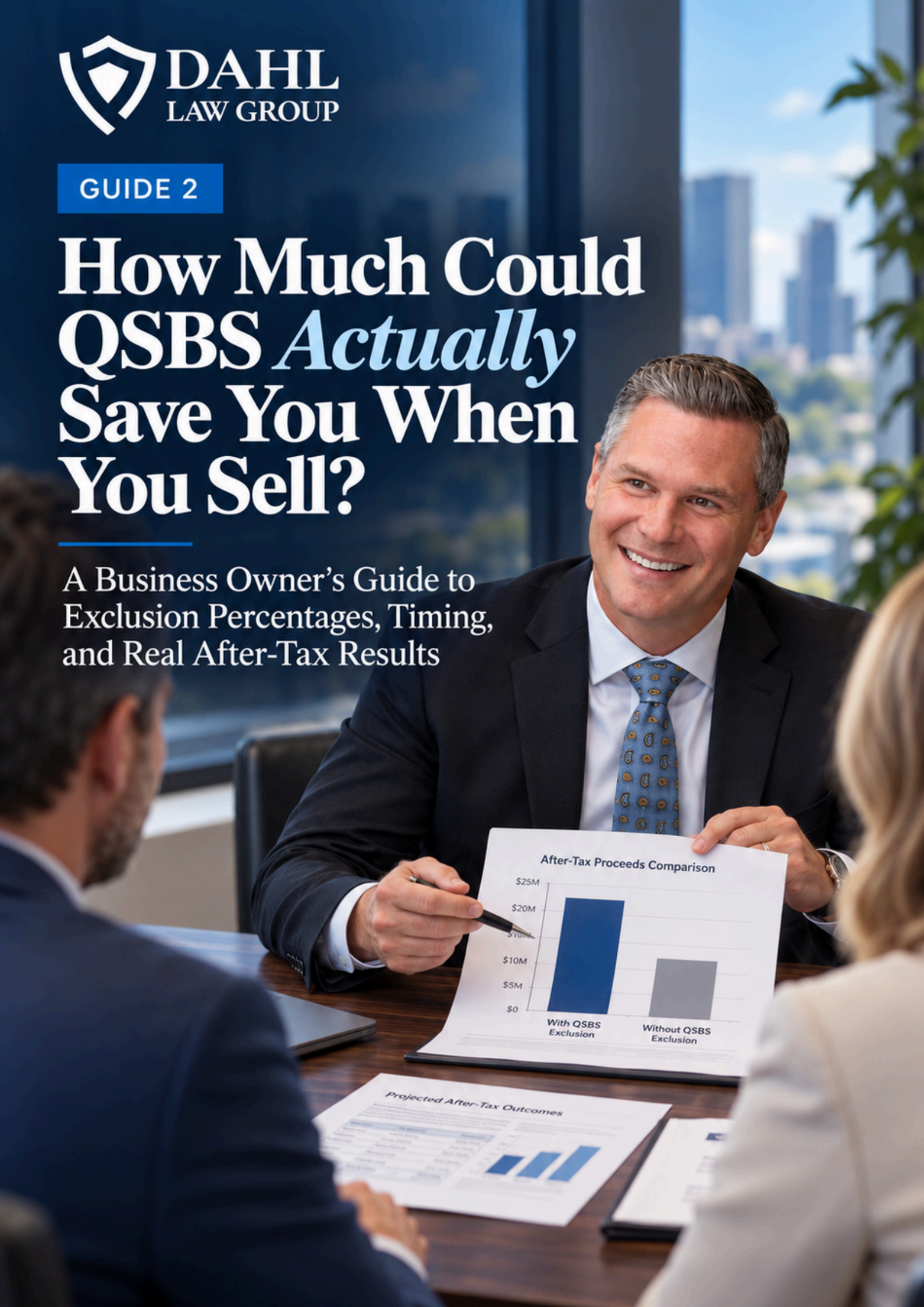
DAHL LAW GROUP

GUIDE 2

How Much Could QSBS *Actually* Save You When You Sell?

A Business Owner's Guide to Exclusion Percentages, Timing, and Real After-Tax Results



SAME BUSINESS SALE, VERY DIFFERENT TAX RESULT

The federal QSBS exclusion percentage can change dramatically depending on how long qualifying stock has been held, so two owners selling at a similar value can keep very different amounts after tax.

THE SAME COMPANY AND SAME SALE PRICE CAN PRODUCE VERY DIFFERENT FEDERAL TAX OUTCOMES DEPENDING ON TIMING.

3 YEARS
50% exclusion
For stock issued after July 4, 2025

$10 MILLION GAIN

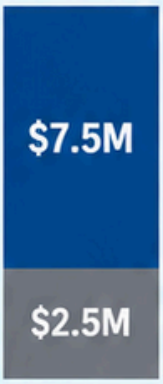


$5 million excluded (50%)

$5 million still exposed (50%)

4 YEARS
75% exclusion
For stock issued after July 4, 2025

$10 MILLION GAIN



$7.5 million excluded (75%)

$2.5 million still exposed (25%)

5 YEARS
100% exclusion
For stock issued after July 4, 2025

$10 MILLION GAIN



$10 million excluded (100%)

$0 still exposed (0%)

POTENTIAL BENEFIT
Waiting longer can materially increase the amount of gain excluded from federal tax, which can significantly increase what you keep after a sale.

POTENTIAL CONSEQUENCE
Selling too early can reduce the exclusion substantially, even if the stock otherwise qualifies for QSBS treatment.

WHAT THIS MEANS FOR YOU
Before accepting an offer, you should model not just the sale price, but also how long the stock has been held and what exclusion percentage applies. The same transaction at a different time can lead to a dramatically different federal tax result.

WHICH QSBS RULES APPLY BASED ON WHEN YOU ACQUIRED THE STOCK?

The federal QSBS result can depend not only on whether stock qualifies, but also on when it was acquired. Different acquisition periods can lead to different exclusion percentages and holding-period rules.

THE DATE YOU ACQUIRED THE STOCK CAN DETERMINE WHICH EXCLUSION PERCENTAGE AND HOLDING-PERIOD RULES APPLY.

BEFORE FEBRUARY 18, 2009

BEFORE FEB 18, 2009

- Generally **50% exclusion**
- **5-year** holding period
- Portion of gain may remain taxable

FEBRUARY 18, 2009 TO SEPTEMBER 27, 2010

FEB 18, 2009 TO SEPT 27, 2010

- Generally **75% exclusion**
- **5-year** holding period
- More gain excluded than earlier stock

SEPTEMBER 28, 2010 TO JULY 4, 2025

SEPT 28, 2010 TO JULY 4, 2025

- Generally **100% exclusion**
- **5-year** holding period
- This is the traditional fully excluded QSBS window

AFTER JULY 4, 2025

AFTER JULY 4, 2025

- **New stepped rules**
- **3 years:** 50% exclusion
- **4 years:** 75% exclusion
- **5 years:** 100% exclusion

POTENTIAL BENEFIT

Knowing which acquisition window applies can help a business owner model the likely federal tax result more accurately before accepting an offer.

POTENTIAL CONSEQUENCE

Assuming all QSBS follows the same rules can lead to major mistakes in tax projections, especially when owners compare older stock to newly issued shares.

WHAT THIS MEANS FOR YOU

Before modeling a sale, confirm when each stock block was acquired. Two qualifying shareholders can face very different federal tax outcomes if their stock falls into different statutory windows.

SELLING ONE YEAR EARLIER CAN CHANGE MILLIONS OF DOLLARS OF EXCLUDED GAIN

For stock acquired after July 4, 2025, the federal exclusion can increase as the holding period lengthens. That means the difference between selling after 3 years, 4 years, or 5 years can materially affect how much gain is excluded.

THE HOLDING PERIOD CAN DIRECTLY CHANGE HOW MUCH OF THE SAME ECONOMIC GAIN IS EXCLUDED.

SALE AFTER 3 YEARS
50% exclusion

3 YEARS

Example gain: **$10,000,000**

Excluded: **$5,000,000**

Potentially taxable: **$5,000,000**

SALE AFTER 4 YEARS
75% exclusion

4 YEARS

Example gain: **$10,000,000**

Excluded: **$7,500,000**

Potentially taxable: **$2,500,000**

SALE AFTER 5 YEARS
100% exclusion

5 YEARS

Example gain: **$10,000,000**

Excluded: **$10,000,000**

Potentially taxable: **$0**

Illustrative example only. Actual tax results depend on acquisition date, holding period, exclusion limits, and other facts.

POTENTIAL BENEFIT

Waiting long enough to reach the next holding-period threshold may significantly improve the federal tax result if the stock is otherwise eligible.

POTENTIAL CONSEQUENCE

Accepting an offer too early may cause a business owner to leave a substantial portion of the available exclusion on the table.

WHAT THIS MEANS FOR YOU

Before signing a letter of intent or setting a closing timeline, compare the projected after-tax result at 3 years, 4 years, and 5 years. In some situations, additional time may materially change what the owner keeps.

EXCLUSION LIMITS

YOUR EXCLUSION MAY BE LARGER THAN THE FLAT-DOLLAR LIMIT

The amount of gain you may be able to exclude is not necessarily limited to one fixed number. Under §1202, the exclusion limit is generally based on the greater of the applicable fixed-dollar limit or 10× your adjusted basis.

THE RELEVANT QSBS LIMIT MAY BE THE GREATER OF THE APPLICABLE FIXED-DOLLAR LIMIT OR 10× YOUR ADJUSTED BASIS.

APPLICABLE FIXED-DOLLAR LIMIT

STOCK ACQUIRED AFTER JULY 4, 2025

$15 MILLION

Generally applies to qualifying stock acquired after July 4, 2025. This amount is subject to future inflation adjustments under the statute.

OLDER STOCK

Stock acquired on or before July 4, 2025 generally remains subject to the older $10 million fixed-dollar amount.

10× ADJUSTED BASIS

10 TIMES YOUR BASIS

The alternative exclusion limit can equal 10 times your adjusted basis in the qualifying stock sold during the applicable year. This can become especially important when the owner has substantial basis in the stock.

SAME COMPANY. VERY DIFFERENT LIMIT.

OWNER A

Adjusted basis: $500,000
10× basis: $5,000,000
Applicable fixed-dollar limit: $15,000,000

POTENTIAL LIMIT: $15,000,000

OWNER B

Adjusted basis: $2,000,000
10× basis: $20,000,000
Applicable fixed-dollar limit: $15,000,000

POTENTIAL LIMIT: $20,000,000

In Owner B's case, the 10× basis calculation produces the larger exclusion limit.

POTENTIAL BENEFIT

A higher adjusted basis can sometimes produce an exclusion limit substantially larger than the fixed-dollar amount.

POTENTIAL CONSEQUENCE

Assuming your QSBS exclusion is automatically capped at $10 million or $15 million can materially understate the potential benefit available under the 10× basis alternative.

WHAT THIS MEANS FOR YOU

Before modeling the tax consequences of a future sale, determine which fixed-dollar limit applies to your stock, calculate your adjusted basis, and compare it to 10× basis. The relevant QSBS limit may be much larger than the flat-dollar amount.

Sources: 26 U.S.C. §1202; IRS Schedule D Instructions (2025).

THE EXCLUSION LIMIT APPLIES

PER ISSUER



The QSBS exclusion limit is calculated separately for each qualified small business (each issuer). If you own QSBS in multiple qualifying companies, you may be able to use a separate exclusion limit for each one.

EXAMPLE: THREE DIFFERENT COMPANIES

Each company qualifies as a separate issuer, so the exclusion limit can potentially be applied to the gain from each sale.

COMPANY A	COMPANY B	COMPANY C
Gain on sale: **$10,000,000**	Gain on sale: **$5,000,000**	Gain on sale: **$7,500,000**
QSBS exclusion: **$10,000,000** (100% exclusion)	QSBS exclusion: **$5,000,000** (100% exclusion)	QSBS exclusion: **$7,500,000** (100% exclusion)
Potentially taxable: **$0**	Potentially taxable: **$0**	Potentially taxable: **$0**

COMBINED RESULT

Total gain from all three sales: **$22,500,000**

Total QSBS exclusion: **$22,500,000**

Potentially taxable: **$0**

KEY POINT

If you own QSBS in multiple qualifying companies, each issuer may have its own exclusion limit, which can substantially increase the total amount of gain you may be able to exclude.

POTENTIAL RISK

All of the QSBS requirements must be met for each company separately. If a company does not qualify, you cannot use the QSBS exclusion for the gain from that sale.

WHAT THIS MEANS FOR YOU

When planning for a future sale, consider your ownership across different companies. Structuring and holding QSBS in separate qualifying businesses may provide additional opportunities to use the exclusion.

QUALIFYING DOES NOT ALWAYS MEAN

NO FEDERAL TAX



Even if your stock qualifies as QSBS, you may still have federal tax depending on when you acquired the stock and your specific circumstances, including the alternative minimum tax (AMT).

OLDER QSBS MAY ONLY QUALIFY FOR A PARTIAL EXCLUSION

Stock acquired before February 18, 2009, or between February 18, 2009, and September 27, 2010, may only qualify for a 50% or 75% exclusion, even if all other QSBS requirements are met.

Stock acquired	Exclusion percentage	Minimum holding period
Before Feb 18, 2009	50%	5 years
Feb 18, 2009 – Sept 27, 2010	75%	5 years
After Sept 27, 2010	100%	5 years

ALTERNATIVE MINIMUM TAX (AMT) CONSIDERATIONS

Even when you qualify for the 100% exclusion, some or all of the excluded gain may still be subject to the alternative minimum tax (AMT), depending on your other income and deductions.

The QSBS exclusion is a preference item for AMT purposes, which means the gain may be included in your AMT calculation.

Whether AMT applies depends on your overall tax situation, including other income, deductions, and credits.

EXAMPLE: 100% EXCLUSION WITH AMT IMPACT

This simplified example assumes a $10,000,000 gain on qualified stock acquired after September 27, 2010. The regular federal tax is eliminated by the 100% exclusion, but a portion of the gain may still be subject to AMT.

Gain on sale: **$10,000,000** → Regular tax (100% exclusion): **$0** → Potential AMT: **Varies** — Depends on your overall tax situation

This example is for illustrative purposes only. Actual tax results depend on your specific facts and circumstances. You should consult with your own tax advisor about the potential impact of AMT in your situation.

KEY POINT

Qualifying for QSBS can eliminate regular federal tax, but it does not always eliminate AMT. You should model both regular tax and AMT before finalizing a sale.

POTENTIAL RISK

Failing to consider AMT can lead to an unexpected tax bill, even when you qualify for the full 100% exclusion under the regular federal tax rules.

WHAT THIS MEANS FOR YOU

Before accepting an offer, run a full tax projection that includes both regular federal tax and AMT to understand your net after-tax proceeds.

KEY REQUIREMENTS TO QUALIFY

YOUR BUSINESS MUST MEET THE QSBS RULES



Not all businesses or stock automatically qualify for the QSBS exclusion. Both the company and the stock must meet specific requirements from the time the stock is issued until the time of the sale.

THE MAIN QSBS REQUIREMENTS

To qualify for the federal exclusion, the company and the stock must meet all of the following requirements:

COMPANY REQUIREMENTS

The business issuing the stock must:

1. Be a **domestic C corporation** (incorporated in the United States).
2. Have aggregate gross assets of **$50 million** or less at the time the stock is issued.
3. Actively conduct a qualified trade or business (most operating businesses qualify).
4. Not be in certain excluded industries, such as financial services, real estate (including rental and development), health care, hospitality, or agriculture.

STOCK REQUIREMENTS

The stock you sell must:

1. **Be original issue stock** (acquired directly from the company, not purchased from another shareholder).
2. Be **acquired on or after August 11, 1993** and meet one of the applicable holding period rules (see page 5).
3. Be held for at least 5 years from the date of acquisition.
4. Remain qualified throughout the holding period (the company must continue to meet the QSBS requirements).

KEY POINT

Both the company and the stock must meet all of the requirements. If one requirement is not met, the stock will not qualify as QSBS.

POTENTIAL RISK

Certain industries and holding structures can disqualify the stock. It is important to review your specific situation with a tax advisor before issuing or selling shares.

WHAT THIS MEANS FOR YOU

If you are planning for a future sale or considering an equity grant, structure the company and the stock with the QSBS requirements in mind from the beginning.

PLAN AHEAD TO MAXIMIZE

STRATEGIES TO INCREASE YOUR QSBS BENEFIT



While you cannot change the basic rules after the fact, there are planning strategies that may help you maximize the potential QSBS exclusion when the time comes to sell.

KEY PLANNING STRATEGIES

These strategies may help position your business and ownership for a larger QSBS exclusion, if they fit your overall goals and situation.

1 CONSIDER THE TIMING OF YOUR INVESTMENT

The date you acquire the stock determines which exclusion percentage applies. Planning your investment with the holding period rules in mind can lead to a larger exclusion.

2 USE SEPARATE ISSUERS WHEN POSSIBLE

If you own QSBS in multiple qualifying companies, each issuer may have its own exclusion limit. This can increase the total amount of gain you may be able to exclude.

3 KEEP THE BUSINESS QUALIFIED

Maintain compliance with the QSBS requirements, including active business operations and gross asset limits, throughout the holding period.

4 PLAN FOR A LONGER HOLDING PERIOD

Holding the stock for at least 5 years is required, and in some cases waiting to reach a higher exclusion percentage can significantly increase the amount of gain you may exclude.

5 STRUCTURE YOUR OWNERSHIP CAREFULLY

The stock must be original issue stock acquired directly from the company. Proper structuring at the time of issuance is essential to preserve QSBS eligibility.

6 COORDINATE WITH YOUR TAX ADVISOR

QSBS can interact with other provisions of the tax code, such as the alternative minimum tax. A coordinated plan can help you evaluate the best overall approach.

KEY POINT

Proactive planning can help you meet the QSBS requirements and position yourself to exclude a larger portion of gain when you eventually sell.

POTENTIAL RISK

Failing to plan ahead, or making changes to your ownership structure later, may cause you to lose QSBS eligibility and the ability to exclude a significant portion of gain.

WHAT THIS MEANS FOR YOU

Incorporating QSBS planning into your broader business, tax, and exit strategy can help you maximize the potential tax benefits and achieve a more favorable outcome.

YOUR SALE PRICE IS ONLY ONE PART OF YOUR EXIT

Qualified Small Business Stock (QSBS) can materially affect what a business owner keeps after a sale. The sale price alone does not tell the after-tax story. The timing of your sale, your holding period, and the applicable exclusion rules can significantly reduce the tax you owe and increase your total proceeds.

THE GOAL IS NOT SIMPLY TO SELL FOR MORE. IT IS TO UNDERSTAND WHAT YOU MAY KEEP AFTER THE SALE.

BEFORE YOU ACCEPT AN OFFER, ASK:

1. When did I acquire my stock?
2. How long will I have held it at closing?
3. Which exclusion percentage applies?
4. Is the fixed-dollar cap or 10× basis more relevant?
5. What is my projected after-tax result?
6. Is there a reason to consider a different closing date?
7. If I am selling early, does §1045 deserve review?

POTENTIAL BENEFIT

Modeling the timing and structure of a sale can materially improve what the owner keeps after taxes.

POTENTIAL CONSEQUENCE

Focusing only on the headline sale price can leave a substantial amount of value on the table.

WHAT THIS MEANS FOR YOU

Before signing a letter of intent or choosing a closing date, compare the projected after-tax outcomes, not just the gross purchase price.

BOOK YOUR STRATEGY SESSION

Dahl Law Group can help business owners evaluate holding period, exclusion limits, timing and exit strategy before a sale.

This guide is provided for general educational purposes only and does not constitute legal, tax, accounting, investment or financial advice. IRC §1202 and §1045 are highly technical and fact-specific. Consult qualified legal and tax professionals before relying on any strategy.