Guide · S corps & entities 11 min read

QSBS After the One Big Beautiful Bill Act: How Founders Sell Their Company With Little or No Federal Tax

By Akanchya Acharya, CPA

Updated October 31, 2026 · Written for founders and early employees of app, software and other startups organized, or about to be organized, as C corporations

The short answer

Qualified small business stock (Section 1202) lets you exclude gain when you sell shares of a qualifying C corporation that you got at original issuance. For stock issued after July 4, 2025, the One Big Beautiful Bill Act excludes 50% of the gain after three years, 75% after four and 100% after five, up to the greater of $15 million per company or ten times your basis, and the company's gross assets can be up to $75 million when the stock is issued. Software and app companies usually qualify; consulting, health, financial services and other service businesses don't. The exclusion depends on details founders often get wrong: being a C corp at issuance, an 83(b) election on restricted founder shares, and an exit structured as a stock sale or qualifying merger rather than an asset sale.

What changed in 2025

	Stock issued Sept 28, 2010 to July 4, 2025	Stock issued after July 4, 2025
Exclusion	100% after 5 years; nothing before	50% after 3 years, 75% after 4, 100% after 5
Cap per company	Greater of $10 million or 10x basis	Greater of $15 million (indexed from 2027) or 10x basis
Company gross assets at issuance	$50 million or less	$75 million or less (indexed from 2027)

The non-excluded part of a partial exclusion is taxed at up to 28%, plus the 3.8% net investment income tax, so a three-year sale still costs real tax. The tiers matter most for founders who get an acquisition offer before year five.

Does your company qualify?

- It's a domestic C corporation, and was one when your shares were issued. An LLC or S corp doesn't issue QSBS.
- You acquired the shares at original issuance, from the company, for cash, property or services. Shares bought from another shareholder don't qualify.
- Gross assets were $75 million or less before and immediately after your shares were issued (for post-July 2025 stock). Later growth past that doesn't disqualify shares already issued.
- During substantially all of your holding period, at least 80% of the company's assets were used in an active qualified business.

Excluded businesses include health, law, engineering, architecture, accounting, consulting, financial services, brokerage, performing arts and athletics, any business whose main asset is its employees' reputation or skill, banking, insurance, investing, farming, oil and mining, and hotels and restaurants. A company that builds and sells its own software, app or platform usually qualifies. A dev shop that builds software for clients by the hour looks like a consulting or skill-based service and often doesn't. A real estate technology company qualifies; one that mainly owns or rents property doesn't, and holding real estate not used in the business above 10% of assets fails the test.

Founder moves that protect the exclusion

- File an 83(b) election within 30 days on founder shares that vest over time. Without it, each tranche is treated as acquired when it vests, which restarts the holding period and taxes the vesting value as wages.
- Starting as an LLC? When you convert to a C corp, your QSBS basis is the company's value at conversion. Only growth after conversion is excluded, and the clock starts then. Converting early, while the value is low, keeps

more gain eligible. A high value at conversion raises the 10x-basis cap, which can help a later-stage company.
Options and RSUs: the holding period starts when you exercise or when shares are delivered, not at grant. Early exercise with an 83(b) can start it sooner.

Avoid redemptions around issuance. The company buying back stock from you or related people within certain windows can disqualify shares.

Keep records: the gross-asset figure at each issuance, the cap table, and the conversion valuation. An acquirer's diligence team will ask for them.

Selling: exits that keep or lose QSBS

Stock sale: the buyer purchases your shares. The cleanest way to use the exclusion.

Merger or stock-for-stock deal: a tax-free reorganization can carry QSBS status into the buyer's stock, but the exclusion is limited to the gain that existed at the time of the exchange.

Asset sale: the company sells its assets and pays tax itself at 21% first. QSBS can still apply to your gain when the company liquidates and pays out the proceeds, but the corporate tax has already taken its share. Push back on an asset deal or price for the difference.

Earn-outs and installment payments can still qualify, but the cap is applied across payments.

Selling early: the section 1045 rollover lets you defer gain on QSBS held more than six months by reinvesting in new QSBS within 60 days.

The $15 million cap applies per taxpayer per company. Gifting shares to family members or certain non-grantor trusts before a sale can give each its own cap. That's estate planning work with an attorney, and it has to be done well before a deal is signed.

State treatment, including Washington

Most states that start from federal income follow the exclusion, but not all. California doesn't allow it. Oregon requires the excluded gain to be added back for tax years beginning on or after January 1, 2026.

In Washington, gain excluded under Section 1202 isn't subject to the 7% and 9.9% capital gains tax, according to the Department of Revenue, and bills in 2026 that would have changed that didn't pass. The new 9.9% tax on income over $1 million, scheduled from 2028, doesn't add back excluded QSBS gain as enacted. Gain above the federal exclusion, or the taxable part of a partial exclusion, can still be subject to Washington tax. Residency on the sale date decides which state's rules apply, so moving right before a sale rarely works the way founders hope.

Frequently asked questions

How much can I exclude under QSBS in 2026?

For stock issued after July 4, 2025, up to the greater of $15 million per company or 10 times your basis, at 50% after three years, 75% after four and 100% after five. For stock issued earlier, the cap is $10 million or 10 times basis and the exclusion requires five years.

Does my app or software company qualify for QSBS?

Usually, if it's a C corporation that sells its own product and had $75 million or less in gross assets when your shares were issued. A business that mainly sells developers' or consultants' time often doesn't.

Can an LLC get QSBS?

Not as an LLC. You can convert it to a C corporation; shares issued at conversion can qualify, with basis equal to the company's value at that time, so only gain after conversion is excluded.

Is QSBS gain taxed in Washington State?

Gain excluded federally under Section 1202 isn't subject to Washington's capital gains tax, and the 2028 income tax as enacted doesn't add it back. Any part of the gain that's taxable federally can be taxed by Washington.

What if the buyer wants to buy assets instead of stock?

An asset sale is taxed to the corporation at 21% before anything reaches you. QSBS can still cover your gain on the liquidating payout, but not the corporate tax. Founders with QSBS usually negotiate for a stock sale or merger, or a higher price that reflects the tax cost.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

The latest version of this guide: acharyacpa.com/resources/qsbs-after-obbba-founders · Updated October 31, 2026