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The OBBBA has a significant tax change for founders tucked away inside, lifting the cap to $75 million with many opportunities to turbo-charge business

By Robert W. Dietz and Christopher A. Steele

Robert W. Dietz *is a Senior Vice President and Senior National Director in Bernstein's Wealth Strategies Group, responsible for leading Bernstein's tax planning research and ensuring the firm's wealth management services and advice remain cutting-edge. He joined the firm in 2006 as a Private Client Associate before becoming an Investment Planning Analyst in 2011. In 2023, he was appointed National Director of Tax Research. He serves on the faculty of the American Bankers Association National Trust and National Graduate Trust Schools.* ***Christopher Steele*** *is National Director, Institute of Trust and Estate Planning, having joined in September 2024. Prior to joining Bernstein, Steele spent over 12 years as a practicing attorney, most recently as a Partner with MendenFreiman, and prior to that, with Chamberlain Hrdlicka. He currently serves on the Board of Directors for the Atlanta Estate Planning Council, as a Den Leader with Scouting America, and a host and leader with Southside Church in Peachtree City, Georgia.*

In an era of economic uncertainty and shifting regulations, the One Big Beautiful Bill Act (OBBBA) presents a notable opportunity for entrepreneurs and early-stage investors. Among its provisions is a significant overhaul of the Qualified Small Business Stock (QSBS) rules—changes that could dramatically reshape the financial future for countless founders.

What's New with QSBS?

QSBS has long been a valuable tool for founders and investors, allowing them to exclude the greater of $10 million or ten times their cost basis from capital gains tax when selling qualified stock of a domestic C corporation held for more than five years—provided certain conditions are met. The OBBBA enhances this framework by increasing the per-issuer limitation from $10 million to $15 million, indexed for inflation, for QSBS issued after July 4, 2025.

Even more transformative is the introduction of partial exclusions starting in year three, enabling founders and investors to access the exclusion sooner than ever before. For QSBS issued after July 4, 2025, eligible gains can be excluded on the following scale:

- 50% after three years
- 75% after four years
- 100% after five years

This phased approach is particularly significant in today's fast-paced market, where the ability to pivot and adapt can mean the difference between success and failure. Founders can now plan their exits with greater flexibility, confident in the knowledge that they have options that were previously unavailable.

A Bigger Cap, a Bigger Opportunity

Previously, only Domestic C corporations with gross assets under $50 million could issue QSBS. The OBBBA raises that threshold to $75 million, opening the door for more companies to benefit from these tax advantages. This development maybe vital for startups and small businesses that often struggle to attract investment in a competitive landscape. By allowing larger capital influxes while preserving tax benefits, the OBBBA enables founders to scale their businesses more effectively.

The increased cap not only enhances tax benefits but also unlocks new strategies for capital raising, exit planning, and entity structuring. Companies that once exceeded the $50 million limit but now fall below the revised threshold can resume issuing QSBS until they again surpass the inflation-adjusted cap. This change presents a strategic opportunity for corporations to attract investors and employees, fostering growth.

Staying Under the Cap: Smart Planning Matters

The OBBBA also includes several provisions that may help corporations reduce the tax basis of their assets, enabling them to remain below the $75 million inflation-adjusted gross asset limitation and continue issuing QSBS longer. For research-heavy businesses, one key change is the immediate expensing of domestic research and experimental costs under Section 174A. Starting in 2025, these expenses will be fully deductible upfront, reducing asset basis and keeping balance sheets leaner. Additionally, the reinstated 100% bonus depreciation will further help companies manage their asset levels and extend their eligibility to issue QSBS longer.

Choosing the Right Structure: C Corp vs. Pass-Through

While the OBBBA significantly enhances the appeal of QSBS, it's important to remember that these benefits apply only to stock issued by domestic C corporations. This means founders must carefully weigh the trade-offs between forming a C corporation and opting for a pass-through entity such as an LLC or S corporation. C corporations are subject to double taxation—once at the corporate level on profits, and again when those profits are distributed to shareholders as dividends. In contrast, pass-through entities typically face only a single layer of tax, which can be more efficient in certain scenarios.

However, many startups don't distribute profits in their early years, making the double taxation of C corporations less of a concern initially. In fact, the optimal QSBS outcome often involves retaining earnings taxed at the lower corporate rate and later excluding gains upon sale—provided the sale is structured as a stock transaction. This strategy requires thoughtful planning but can result in substantial tax savings for founders and investors.

A Call to Action for Founders

The QSBS reforms found in the OBBBA are more than just tax tweaks—they're a strategic invitation for founders to rethink how they grow and raise capital and plan exits. But these benefits won't materialize automatically. Founders must proactively adapt to the new rules, assess their business structures, and plan with precision. For those who do, the rewards could be substantial. The increased cap, phased exclusions, and expanded eligibility create fertile ground for innovation and growth. In a challenging economic landscape, the OBBBA offers a rare tailwind—one that savvy entrepreneurs can harness to build stronger, more resilient businesses.