If you were smart enough to buy qualified small business stock (QSBS) last year, you're halfway home to a unique tax break. Now comes the hard part: You have to hold the stock for at least five years before you sell it. If you do, your entire gain is tax-free!

The tax break for QSBS was one of the provisions extended by the Tax Increase Prevention Act for 2014 (TIPA). Under TIPA, you can exclude from tax 100 percent of the resulting gain for stock owned at least five years before its sale. But this provision, along with the other extenders in TIPA, expired after December 31, 2014. Barring any further legislation, the exclusion is cut in half to 50 percent for QSBS acquired in 2015.

Background: This tax-saving opportunity goes back a few years. Prior to 2009, an investor could exclude capital gains tax on 50 percent of the gain from the sale of QSBS held at least five years. But there was a catch: The resulting capital gains tax for investors in QSBS was 28 percent. In other words, you could exclude half of your gain from tax, but the rate was still 14 percent. That's only one percent lower than the usual capital gains tax rate of 15 percent.

Eventually, the tax exclusion for QSBS was raised to 75 percent, and then again to 100 percent after September 27, 2010. Subsequent legislation extended the 100 percent exclusion through 2013. Now TIPA has added another year on for good measure, but the exclusion has reverted to the 50 percent level for 2015 and thereafter. In addition, the special 28 percent capital gains tax rate for QSBS still applies.

A fledgling company looking for an influx of capital may issue QSBS. To qualify for the exclusion, the following requirements must be met:

- The stock must have been issued after August 10, 1993.

- The stock can't be acquired in exchange for other stock.

over the proceeds into new QSBS within 60 days. But clients normally would not do this if they can benefit from a 100 percent exclusion.

Conclusion: Another extension of the enhanced QSBS tax break is hardly a lock. Thus, investors face a potential 14 percent capital gains rate if they buy QSBS stock this year and wait long enough before selling it. At least this much is certain: Absent special circumstances, your clients will benefit from holding QSBS stock acquired in 2014 for at least five years. Then they can sell it and pocket the entire gain without paying any tax.

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