Ken Berry • Oct. 12, 2022

Are you looking to jump-start your small business with a fresh influx of cash? Or maybe you have your eye on a promising business venture that needs more money to operate. In either case, you could be in line for a unique tax break if you invest in "qualified small business stock" (QSBS) issued by the company.

Specifically, if you keep the QSBS for at least five years before selling it and you meet certain other tax law requirements, any gain from a future sale is completely exempt from tax. That's a deal that's hard to beat!

Background: The tax break for QSBS has been kicking around for a bunch of years

safely invest in QSBS, knowing with full certainty that you're eligible to benefit from a huge tax-free payout if the company proves to be successful. But the tax exclusion isn't automatic. The following requirements must be met to secure the 100% tax exclusion.

- The stock must have been issued after August 10, 1993.
- The stock can't be acquired in exchange for other stock.
- The issuing corporation must be a C corporation.
- A minimum of at least 80% of the corporation's assets must be used in the active conduct of a qualified trade or business.
- The corporation can't have more than $50 million in assets at the time the stock is issued.
- Certain businesses involving real estate or personal services (e.g., law, health, financial services, etc.) are excluded from the equation.

In addition, you won't owe any current tax on a gain from the sale of QSBS if you roll over the proceeds into new QSBS within 60 days. But you normally would not do so if you can benefit from the 100% exclusion. Keep this option in your hip pocket.

Finally, remember that taxes aren't the be-all and end-all and that investments in new business ventures are risky. Do your homework and make sure that the investment stands up to financial scrutiny, especially if you're going outside your own company. Consult with your advisors before making any big commitments.

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