QSBS Requirements for Independent Sponsor Deals: How OBBBA Changed the Capital Gains Math



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Key Takeaways:

- The QSBS exemption can significantly reduce or potentially eliminate capital gains taxes in many lower middle-market private equity and independent sponsor deals.
- Under OBBBA, more deals meet QSBS requirements, with a $75 million gross-asset threshold and a $15 million per-investor cap.
- Rolling owners with rollover equity can often benefit from QSBS too, but excluded businesses, C corporation modeling, and a required stock sale at exit call for careful review.

What is a key capital gains tax benefit of many lower-middle-market private equity and independent sponsor transactions? Answer: Qualified Small Business Stock (QSBS).

How the QSBS Exemption Boosts Investor Returns

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- The QSBS exemption can significantly reduce (or potentially eliminate) capital gains taxes at the federal level (and in most states), which has a HUGE positive impact on investor returns.

- Post LOI, our private equity and independent sponsor attorneys work closely with our clients (on the legal structuring side) and their accountants to (1) evaluate QSBS qualification for the target business, (2) help clients weigh the pros/cons, and (3) assess potential benefits to the cash investors, rolling owner(s), and sponsor itself.

QSBS Requirements After OBBBA: $75 Million Threshold and $15 Million Cap

- Under the One Big Beautiful Bill Act (OBBBA), more deals now meet QSBS requirements based on the increased $75 million gross-asset threshold. And the per-investor cap is now $15 million.

- Since many PE/independent sponsor/direct deals include rollover equity, the deal can often be structured in a way such that the rolling owner can benefit from QSBS as well. (This can be a nice incentive when buyers are modeling potential future returns to a rolling owner).

- Certain businesses are excluded from QSBS (often tied to professional services), and in select cases (such as a business with a significant fixed asset base or a deal where the client expects meaningful cash dividends along the way), careful modeling should be done to confirm that running the business as a C corporation is the better choice.

- Note that on exit, the stock of the QSBS entity must be sold to capture the QSBS tax treatment (the increasing use of representations and warranties insurance (RWI) in deals helps mitigate that stock purchase risk for a future buyer).

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John J. Koeppel's commentary on " How OBBBA Changed QSBS Exit Math for Middle-Market PE Deals ," Stout.com, by Joe Wukelic, February 25, 2026.

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