

What is a Key Capital Gains Tax Benefit of Many Lower Middle Market and Independent Sponsor Transactions?



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What is a key capital gains tax benefit of many lower middle market / independent sponsor transactions?

Answer: QSBS.

- The ability to significantly reduce (or potentially eliminate) capital gains taxes at the federal level (and in most states) has a HUGE positive impact on investor returns.
- Post LOI, we work closely with our clients (on the legal structuring side) and their accountants to (1) evaluate Qualified Small Business Stock eligibility 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.
- More deals now qualify 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 roll-over 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 (often tied to professional services), and in select cases (i.e., 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 benefits (the increasing use of RWI in deals helps mitigate that stock purchase risk for a future buyer).

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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