

Corporations - 1202

12/01/2021

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Agenda

- Amount of Exclusion
- Eligible Corporations
- Qualified Trade or Business
- Eligible Shareholders
- Examples of QSBS Studies
- Future of QSBS

Amount of Exclusion

- Aug. 10, 1993 – Feb. 19, 2009 50% Gain Exclusion
 - Feb. 19, 2009 - Sep. 27, 2010 75% Gain Exclusion
 - Sep. 27, 2010 – Present 100% Gain Exclusion
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- The gain eligible for exclusion in a tax year is limited to the greater of:
 - ▶ \$10 million; or
 - ▶ 10 times the aggregate adjusted bases of the stock sold

Eligible Corporations

- An eligible corporation is any domestic C corporation
- Aggregate gross assets of the corporation (or any of its predecessors) must not have exceeded \$50,000,000
- During substantially all of a taxpayer's holding period, the corporation must meet the active business requirements

Qualified Trade or Business

- A qualified trade or business is any trade or business other than:
 - ▶ Professional Services; Athletes and Entertainers; Banking; Farming; Mining; Hotels, motels, restaurants; or any other trade or business where the principal asset is the reputation or skill of one or more of its employees
- LTR 202114002
 - ▶ January 13, 2021
- LTR 2021125004
 - ▶ March 29, 2021

Eligible Shareholders

- Noncorporate taxpayers are eligible for the QSB stock gain exclusion
 - ▶ Individuals, trusts, and estates
 - ▶ Owners of passthrough entities acting as QSB shareholders may be eligible QSB stock gain exclusion
- The taxpayer must have acquired it at its original issuance in exchange for:
 - ▶ money, property, or services provided to the issuing corporation
- The taxpayer must hold the stock for a minimum of 5 years

Examples of QSBS Studies

- Corporations
 - ▶ Ahead of sale
 - ▶ After sale
 - ▶ Planning for future exit
- Individual Shareholders
 - ▶ Ensuring shares meet requirements
 - ▶ Planning around transferring shares

Future of QSBS

- Ways and Means proposal would significantly limit QSBS benefit
 - ▶ Would reduce the favorable 75% or 100% exclusion rates down to 50%
 - For Taxpayers with AGI greater or equal to \$400k
 - ▶ Would apply to sales made on or after Sept. 13, 2021