McCarthy Asset Management, Inc.
*Personalized Wealth Management*

# QUALIFIED SMALL BUSINESS STOCK– A GREAT TAX BENEFIT YOU PROBABLY HAVEN'T HEARD OF

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**STEVE MCCARTHY**
**CPA, CFP®,**
**Owner and Principal**
650 610-9540 x 303
**steve@mamportfolios.com**


***"QSBS offers the opportunity to realize significant tax savings by reducing or eliminating Federal capital gains tax on the sale of qualified stock."***

*McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.*

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It's no secret that small businesses have long been the growth engine of the US economy. With that in mind, in 1993 Congress created the qualified small-business stock (QSBS) exclusion to encourage investment in certain small businesses. Providing the owner and the stock meet certain criteria, QSBS offers the opportunity to realize significant tax savings by reducing or eliminating Federal capital gains tax on the sale of qualified stock.

How much gain can you exclude? Depending on when the stock was acquired, you may be able to exclude from 50% to 100% of the gain from capital gains tax, up to the greater of $10 million or 10 times the cost basis. Specifically, for stock acquired:

- Before 2/18/09, 50% of the gain is excluded.
- Between 2/18/09 and 9/27/10, 75% of the gain is excluded.
- After 9/27/10, 100% of the gain is excluded.

**Company Requirements**- To qualify as QSBS:

- The Company must be a domestic C corporation throughout the owner's holding period (i.e. S corps and LLCs don't qualify).
- The corporation may not have more than $50 million in assets both before and immediately after the shares were purchased.
- At least 80% of the firm's assets must be used in an active business in a qualifying field, as defined in Internal Revenue Code Section 1202. The disqualified list includes, but is not limited to, most service firms in the fields of financial services, farming, accounting, consulting, health care, law and hospitality.

**Investor Requirements**: The owner of the stock must be a non-corporate taxpayer, acquire the stock at its original issue (not from a secondary market), and hold it for at least five years.

For QSBS acquired prior to September 28, 2010, the tax benefit of the exclusion is reduced as the taxable portion of the gain is taxed at 28%. In addition, 7% of the excluded gain is a preference item subject to alternative minimum tax.

## Our Services

Investment Management Services:

•MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

•The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.

•"Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained several outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

The really significant benefit is that 100% of the gain (up to $10 million) is excluded from Federal tax for QSBS acquired after September 27, 2010.

**Recommendations/Comments:**

1) **Stock Options:** The 5-year holding period begins on the date of exercise, not the grant date. The $50 million gross asset cap must be satisfied on and before the date of the exercise of the options.

2) **State Income Tax:** The QSBS exclusion does not necessarily apply to state-level taxes. Some states allow an exclusion from state-level tax, while others, (including California) do not.

3) **Certify Your Purchase:** Keep good records of your QSBS purchase including the date and amount paid. Also, ask the Company to certify that it is a C Corp, has $50 million or less in assets before and just after your purchase, and that at least 80% of the Company's assets are used in the active conduct of a qualifying business. Note that if you wait several years to ask for this information, it may no longer be available.