Corporate Insights: What Startups and Founders Need to Know About the “One Big Beautiful Bill Act” (Now Law)

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In a landmark legislative win for entrepreneurs, the “Big Beautiful Bill” was signed into law on July 4, 2025, overhauling how startups, founders, and early investors structure and grow their companies. Among the most impactful provisions are major improvements to the Qualified Small Business Stock (QSBS) rules, expanded depreciation rules, and enhanced access to early-stage capital, as well as new constraints on non-competes.

If you’re a founder navigating growth or preparing for a liquidity event, here’s what you need to know now that the bill is law.

1 – QSBS Cap Increased to $15 Million — With Holding Period Flexibility

Under the updated IRC §1202:

- The per-issuer QSBS exclusion cap has increased from $10 million to $15 million and will be indexed for inflation beginning in 2027.
- The gross asset threshold for eligible corporations increased from $50 million to $75 million at the time of stock issuance.
- Most importantly, QSBS issued after July 4, 2025, is now eligible for partial capital gains exclusions after shorter holding periods:
  - 50% after 3 years
  - 75% after 4 years
  - 100% after 5 years

This creates strategic flexibility for founders evaluating exit options before hitting the five-year mark.

2 – Increased Depreciation and First-Year Expensing

Startups in biotech, robotics, AI, and advanced manufacturing can now fully expense qualifying equipment in the year placed in service under the extended 100% bonus depreciation rule.

This immediate deduction improves cash flow and is especially powerful for early-stage companies building labs,

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server infrastructure, or prototyping environments.

3 – Doubled R&D Payroll Tax Offset

The law increases the R&D tax credit cap for payroll tax offsets from $250,000 to $500,000 annually. For pre-revenue startups, this can offset hiring costs and create meaningful runway extension.

4 – Increased Attractiveness to Early Hires

- Employees receiving QSBS-eligible stock options can potentially exclude more gains at exercise and sale.
- This strengthens equity-based recruiting pitches in a tight talent market.

5 – Competitive Edge in M&A

Strategic acquirers may be more open to stock-for-stock deals when rollover QSBS treatment is preserved—making it potentially easier to negotiate for equity rather than all-cash exits.

An additional note about QSBS:

ROLLOVER EQUITY: HOW THE 5-YEAR QSBS CLOCK WORKS IN M&A

Founders often ask: *If I sell the equity of my startup before I've held QSBS for 5 years, do I lose the tax exclusion?*

Not necessarily. Under IRC §1202(h), if your company's shares are acquired in a tax-free reorganization and you receive equity of the acquirer, you may "tack" your original holding period onto the new shares.

REQUIREMENTS TO PRESERVE QSBS ELIGIBILITY IN A ROLLOVER

1 – Tax-Free Reorganization
The transaction must qualify under IRC §368 (e.g., a merger, stock-for-stock exchange, or asset acquisition structured as tax-deferred).

2 – Stock Consideration
You must receive equity (not just cash) in the acquirer to preserve your holding period. Mixed consideration may allow partial QSBS benefits, for the portion that was equity for equity.

3 – Acquirer Must Be QSBS-Eligible
The new company must qualify as a Qualified Small Business—i.e., meet the active business requirement and be under the $75 million gross assets cap.

Example:

- You were issued QSBS in 2022.
- You sell the company in 2026, receiving acquirer stock in a tax-deferred reorg.
- Because the stock is "substituted stock," your 2022 start date is preserved. You'll reach the 5-year mark in 2027, and the full $15M exclusion applies.

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5 POTENTIAL DOWNSIDES TO WATCH

1 – QSBS Still Limited for Foreign Shareholders

The expanded QSBS rules do not extend to non-U.S. shareholders or foreign trusts. If your cap table includes international investors, careful planning is needed to preserve equity value.

2 – Restrictions on Non-Compete Agreements

The law restricts the enforceability of non-compete clauses—even for founders and executives. Startups will need to strengthen:

- IP assignment agreements
- NDAs and confidentiality clauses
- Trade secret enforcement policies

3 – Depreciation Rules Exclude Leased or Shared Assets

While 100% depreciation applies to owned assets, note that leased property and shared equipment—including many coworking and lab setups—do not qualify.

4 – Planning Required for Rollover Equity

While the new law clarifies rollover holding periods, structuring M&A deals to qualify still requires careful tax planning and legal drafting.

5 – Potential for IRS Scrutiny

The IRS has historically audited QSBS claims closely. Founders should maintain clean corporate records, cap tables, and valuation files.

Important considerations in the wake of the new law:

- Consider if forming as a C-corp is right for you.
- Track QSBS eligibility and stock basis records diligently.
- Track qualified assets and expenses to support depreciation deductions. Work with M&A counsel to preserve QSBS treatment in sales and rollovers.

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