NJ Qualified Small Business Stock Conformity



7/31/2025

On June 30, 2025 Governor Murphy signed Bill A4455 into law. The bill brings New Jersey into conformity with IRC 1202 for tax years beginning on or after January 1, 2026.

By way of explanation, IRC Sec 1202 excludes capital gains from the sale of qualified small business stock (QSBS) within certain limits. Given New Jersey's progressive rates, this could be a potential savings of 10.75%.

IRC Sec 1202 allows eligible shareholders of QSBS to exclude 50% to 100% of capital gains upon the sale of QSBS provided the stock and taxpayer meets all of the criteria. The provision allows eligible taxpayers to exclude the greater of $15 ($10 million if the stock issued on or before July 4, 2025) or up to ten times the taxpayer's basis in the QSBS sold.

To qualify for the exclusion, (1) the stock must be acquired directly from the corporation at the time of original issuance; (2) the gross assets of the issuing corporation must not exceed $50 million at any time prior to or immediately after such issuance: (3) the issuing corporation must satisfy the "active business" requirements during substantially all of the taxpayer's holding period: and (4) the taxpayer must hold the QSBS for more than five years.

The most difficult requirement is the active business requirement. Qualification for this tax exemption can have extremely significant benefits for a taxpayer and appropriate attention to detail must be applied.

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