



# SECTION 1202 QUALIFIED SMALL BUSINESS STOCK CHECKLIST

# INTRODUCTION

Use this checklist to determine if you (a non-corporate taxpayer) have stock that qualifies under Section 1202 of the Internal Revenue Code as qualified small business stock (QSBS). After you complete this checklist, please provide it to your tax advisor to determine if you will be eligible to exclude all or a portion (50% or 75%) of the gain on the sale of a QSBS.

This checklist can be used whether you sold stock during the previous taxable year or are thinking of selling stock during the current year. The IRS enforces strict requirements to exclude gain under Section 1202; this checklist can also be a helpful tool for those who recently acquired stock to determine the eligibility of the stock as Section 1202 QSBS and, if eligible as Section 1202 QSBS, to determine the required holding period you will need to hold the stock before sale.

## DIRECTIONS

Answer every question of the checklist in order. If your answer to a question is "yes," complete each question and move onto the next question. If your answer to a question is "no," follow the instructions provided.

# CHECKLIST

1. Is the stock issued by a domestic C corporation (excluding a DISC, RIC, REIT, REMIC, cooperative, or corporation which has made an election under Section 936 of the Internal Revenue Code)? *If no, you do not qualify. Stop here.*

If yes, what is the name and EIN of the C corporation? \_\_\_\_\_

2. Did you acquire the stock at original issue (not from a secondary market) in exchange for money, other property (not including stock), or as compensation for services provided to the corporation? *If no, you do not qualify. Stop here.*

If yes, what was the purchase amount? \_\_\_\_\_

If yes, what was the medium of exchange? \_\_\_\_\_

3. Was the value of the corporation's gross assets under \$50 million up until the date of stock issue and immediately after? The assets should be valued at original cost, not fair market value (with the exception of contributed property). *If no, you do not qualify. Stop here.*

If yes, what is the value at the date of purchase? \_\_\_\_\_

- 4a. Does the corporation conduct an "active trade or business" during substantially the entire holding period of your stock? To qualify, at least 80% of the corporation's assets must be used in the "active trade or business" during your entire holding period. *If no, you may still qualify - see Question 4c.*

If yes, what is the "active trade or business?" \_\_\_\_\_

- 4b. If yes, is the "active trade or business" one of the following: (1) professional services, (2) banking, insurance, and related businesses, (3) farming businesses, (4) lodging and restaurant businesses, and (5) rental of real property? *If yes, you do not qualify. Stop here.*

- 4c. Is the corporation a holding (or parent) company that owns more than 50% of the combined voting power of all classes of voting stock, or more than 50% in value of all outstanding stock of an operating company that conducts an "active trade or business?" A parent corporation is deemed to own its ratable share of the subsidiaries assets and its ratable share of its activities. If this applies to you, the answer to the above question 4(a) should be "yes." *If this does not apply to you, you do not qualify. Stop here.*

5. Does 10% or less of the value of the corporation's net assets consist of stock and securities of other corporations (not including that of a subsidiary)? *If no, you do not qualify. Stop here.*

If yes, how much of the net assets consist of stocks/securities (not including a subsidiary)?  
\_\_\_\_\_

6. Have you excluded gain from the sale of QSBS in the same corporation in prior years? *If no, continue to the next question.*

If yes, how much gain did you exclude in prior years? \_\_\_\_\_

7. Have you owned the stock for more than five years? If no, you do not qualify for exclusion at this time. If you have not held the stock for five years (and have yet to sell the stock) but meet all of the above tests, you may qualify for gain exclusion at the time of sale if you hold the stock until the five year requirement is met.

If yes or no, what was the date of purchase? \_\_\_\_\_

*Please note if you have held the stock for more than five years but were issued the stock prior to August 10, 1993, you will not be eligible for gain exclusion under Section 1202.*

*Also note the date of purchase will determine if you can exclude all or a portion (50% or 75%) of the gain. It will also determine if you are subject to an AMT add-back.*

8. Has the corporation purchased any of its stock from you (or a related person) within two years before or after the issuance of the shares for which you are seeking an exclusion? *If no, continue to the next question.*

If yes, on what date was the purchase? \_\_\_\_\_

If yes, how many shares? And in what amount? \_\_\_\_\_

9. Did the corporation redeem more than 5% of the aggregate value of all of its stock (for reasons other than certain events, including death, divorce, disability, and certain de minimis redemptions) within one year before or after the issuance of the shares for which are seeking an exclusion? *If no, stop here.*

If yes, on what date was the redemption? \_\_\_\_\_

# NEXT STEPS

Now that you have completed this checklist, please provide it to your tax advisor, along with any other documents you have related to the purchase of your stock (i.e. Share certificate, copy of canceled check, etc.).

Please note this set of requirements is for federal tax purposes. You may be required to satisfy a different set of requirements to qualify for gain exclusion in your state.

If you do not qualify under Section 1202 to exclude gain from the sale of QSBS, you may be able to defer gain from the sale by re-investing in a QSBS, under Section 1045. Please consult your tax advisor regarding this tax planning opportunity.

If you have any questions after completing the questionnaire please [contact us](#). The SC&H Group Tax Services Team is here to help you navigate this tax planning opportunity.

