

## Small Business Investors in Healthcare and Other Sectors May Reap Tax Advantages

Investors who are searching for new opportunities in healthcare and other sectors are noting the generous tax treatment available to them by holding qualified small business stock (QSBS). According to [IRC Section 1202](#), QSBS holders may have gains of 50 percent to 100 percent excluded from their tax obligations, depending on the date the stock was acquired. The exclusion is generally limited to the greater of \$10 million or 10 times the taxpayer's basis in the stock. Proper planning may enable many entrepreneurs to fully avoid paying federal tax on qualified gains.

Although this benefit is known to investors in several sectors, many small healthcare businesses and investors may assume that they are not eligible. The tax code states that disqualified businesses include "any trade or business involving the performance of services in the fields of health, law, engineering, accounting...where the principal asset of such trade or business is the reputation or skill of one or more of its employees."

Physician practices are excluded, but other kinds of healthcare businesses may qualify for these tax exclusions. Investments in the pharmaceutical sector, healthcare R&D companies, medical device companies, back-office service providers and healthcare technology companies that do not provide direct patient care all may qualify for this tax benefit.

The IRS code stipulates that several requirements must be met to qualify for this tax exclusion. The QSBS must be:

- Issued by a domestic C corporation with less than \$50 million of gross assets at the time of issuance.
- Issued by a corporation that uses at least 80 percent of its assets (by value) in the active conduct of a **qualified** trade or business, other than in certain personal services and other types of specified businesses.
- Held by a non-corporate taxpayer.
- Acquired by the taxpayer on original issuance.
- Issued after August 10, 1993.
- Held for more than five years.

If your small business qualifies for these tax advantages, you may be able to appeal to a wider range of interested investors. Contact your tax advisor to do proper planning to determine if investors can take advantage of this valuable tax savings opportunity.

Questions on tax law regarding this matter? Please contact Frankel Zacharia at 402.496.9100.