QSBS Requirements:

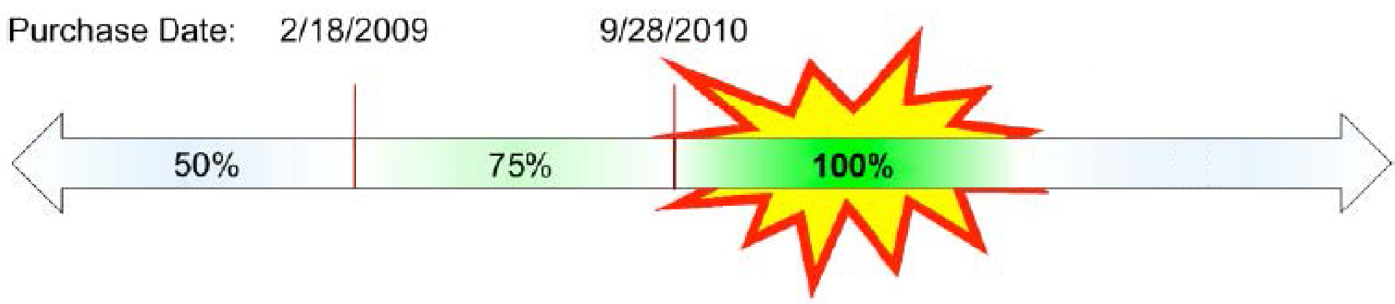
Qualified Small Business Stock (QSBS) is stock of a U.S. “C” corporation with gross assets less than $50M, both before and immediately after the issuance of the stock. The original issuance of the stock must have occurred after August 10, 1993. All corporations that are a part of the same parent corporation are treated as one corporation.

The taxpayer must acquire the stock at its original issue, either in exchange for money, property, or as compensation for services.

A qualified trade or business is any trade or business <u>other than</u>:

1. Health, law, engineering, architecture, accounting, actuarial services, or brokerage services
2. Banking, insurance, financing, leasing, investing, or similar business
3. Farming business
4. Production of products for which depletion can be claimed
5. Hotel, motel, restaurant, or similar business.

Exclusion of Gain from Sale of QSBS



Date of stock acquisition is critical in determining which of the three categories of exclusion applies.

50% Exclusion of Gain
For QSBS stock acquired prior to February 18, 2009, IRC Sec. 1202 allows non-corporate taxpayers to exclude from gross income 50% of any gain from the sale or exchange of QSBS stock. The stock must be held for more than five years.

The maximum tax rate on an individual’s net long-term capital gain for 2015 is 20% (in addition to the medicare surcharge tax of 3.8%). However, the capital gains rate applicable to sales of QSBS subject to the 50% exclusion is 28% (in addition to the medicare surcharge tax of 3.8%). Therefore, the effective QSBS tax rate is 15.9% (50% x 31.8%). This amounts to an overall tax savings of 7% to 8% -a modest tax benefit.

75% Exclusion of Gain
For QSBS stock acquired between February 18, 2009 and September 27, 2010, the 2009 Recovery Act increased the capital gain exclusion from the sale or exchange of QSBS held more than five years to 75%.

Based on the 75% exclusion, the effective QSBS tax rate becomes 7.95% (25% x 31.8%). This is less than half of the normal long-term capital gains rate and amounts to an overall tax savings of 15% to16%.

100% Exclusion of Gain
For QSBS stock acquired after September 28, 2010, the 2010 Tax Relief Act, 2012 Taxpayer Relief Act, and 2015 Protecting Americans from Tax Hikes Act increased the capital gain exclusion from the sale or exchange of QSBS held more than five years to 100%.

Gains from QSBS purchased within this timeframe have an effective tax rate of 0% (0% x 31.8%). The possibility of a 0% tax rate is a unique tax opportunity that has piqued the interest of many investors.

It is important to note that the actual tax benefit will be slightly lower for taxpayers who are subject to Alternative Minimum Tax (AMT). For example, taxpayers who are eligible for the 50% exclusion, but are also subject to AMT, may find their overall tax savings reduced by approximately 1%.

Rollover of Gain from Sale of QSBS:

In addition to the exclusion of gain provisions, taxpayers may defer the taxable gain on the sale of their QSBS (“old QSBS”) by electing to rollover the gain to newly purchased QSBS (“new QSBS”). To make the rollover election, taxpayers need not meet the five-year holding period requirement, but must hold the shares for more than six months. In addition, the new QSBS must be acquired within 60 days of the sale date of the old QSBS. We encourage you to discuss the finer details of this topic with your tax preparer to ensure that any QSBS Rollover transactions are completed correctly.

QSBS Restrictions:

The amount of excluded gain is limited in any year to the greater of 1) 10 times the taxpayer’s basis in the stock OR 2) $10 million reduced by eligible QSBS gain taken into account in previous years.

On October 4, 2013 the Franchise Tax Board issued guidance regarding its treatment of QSBS. AB1412 retroactively allows the QSBS deferral and 50 percent gain exclusion for tax years 2008 to 2012. In addition, the previous requirement that 80% of business activity occur in California during the holding period was eliminated. However, in order to qualify for the deferral or 50% exclusion, the company that issued the stock must meet the 80% California payroll requirement at the time of stock acquisition. For tax year 2008, taxpayers had until June 30, 2014 to file a QSBS claim for refund.

After the 2012 tax year, the State of California no longer allows the deferral or 50% exclusion of QSBS stock.