

The Tax Break New Jersey Business Owners Can't Afford to Miss

New Jersey's new taxbreak could save business owners millions



Bozena Diaz
Partner

For years, many business owners avoided organizing their companies as traditional C corporations. The reason was simple: taxes.

Under the classic C corporation structure, businesses pay taxes on their profits, and shareholders are taxed again when those profits are distributed. That “double taxation” made other business structures, such as LLCs and S corporations, more attractive for many entrepreneurs.

But a series of federal and state tax changes is turning that thinking on its head.

Beginning January 1, 2026, New Jersey will allow taxpayers to exclude gains from the sale of Qualified Small Business Stock (QSBS) from New Jersey Gross Income Tax, aligning the state with longstanding federal tax rules. Combined with major enhancements to federal law passed through the One Big Beautiful Bill Act in 2025, the changes could create significant tax savings opportunities for founders, investors, family businesses and business owners planning for a future sale.

The shift has already started changing conversations with clients, says Justin Csik, partner at Archer.

“Over the last several years, tax laws have shifted in ways that make C corporations much more attractive than they used to be,” says Csik. “Because of that, we’re having

a lot more conversations with business owners about whether they should be thinking differently about how they’re structured and how they plan for an eventual sale.”

At the center of these changes is Section 1202 of the Internal Revenue Code, which governs qualified small business stock. While the provision has existed for years, it has become dramatically more valuable in recent decades.

“This wasn’t a provision many people paid attention to for a long time,” says Csik. “That changed in 2010, when the tax break was expanded. Instead of excluding only part of the gain from a stock sale, qualifying shareholders could potentially exclude all of it.”

Today, those benefits are even larger.

Under the updated federal rules, shareholders can now exclude up to \$15 million in taxable gain from the sale of

qualifying stock – or 10 times their original investment, whichever is greater.

“There can be some very meaningful tax savings here,” says Csik. “But the key is making sure the planning is done correctly from the beginning.”

Because QSBS planning touches everything from taxes and business structure to estate planning, having the right team in place is essential. One advantage of working with a firm like Archer is that attorneys, tax advisors and estate planning professionals all work together under one roof, helping business owners create a coordinated strategy and maximize potential tax savings.

The federal law also introduced more flexibility for investors who may not hold stock for a full five years. For qualified small business stock acquired after July 4, 2025, taxpayers may qualify for a 50% exclusion after three years, a 75% exclusion after four years and the full 100% exclusion after five years.

Bozena Diaz, a partner at Archer, says these updates significantly expand the reach of the program.

“One of the biggest

changes is that more companies can now qualify,” says Diaz. “The size limit increased from \$50 million to \$75 million, which opens the door for many growing businesses and gives more founders and investors the opportunity to take advantage of these tax benefits.”

That increased eligibility is important because many business owners assume these tax breaks only apply to venture-backed startups or wealthy investors. In reality, the opportunity may be much broader.

“This really isn’t just a planning tool for wealthy investors,” says Csik. “Startup founders, early employees and small business owners can all potentially benefit from it. If you’re building a business and there’s a possibility that it could be sold down the road, these rules can become very relevant.”

New Jersey’s decision to conform to federal qualified small business stock treatment makes those opportunities even more attractive.

“Until now, New Jersey did not follow the federal rule,” says Diaz. “That meant residents owed state tax on those



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gains even when they were fully sheltered at the federal level. Beginning in 2026, that disconnect disappears.”

The result is a potentially powerful combination of federal and state tax savings for qualifying shareholders.

Of course, not every business qualifies. Those excluded industries include banking, insurance, financial services, hotels, restaurants and certain professional service businesses. However, many other industries remain eligible.

“Industrial businesses, manufacturing companies, technology firms and retail businesses, for example, can all be viable candidates,” says Csik.

Importantly, companies are not penalized if they later grow beyond the revenue threshold.

“As long as the business meets that gross asset threshold of \$75 million or less when the stock is originally issued, it may qualify,” says Csik.

While the tax benefits are generating excitement, advisors stress that timing is everything.

“The value of early planning cannot be overstated,” says Csik. “Because there is a five-year holding period requirement to fully take advantage of the exclu-

sion, it's something business owners should be thinking about now rather than later.”

“When business owners put the right structure in place early, the tax savings when they eventually sell can be substantial,” says Diaz.

The benefits may even extend beyond the business itself and into long-term family wealth planning.

“There are also estate planning opportunities associated with qualified small business stock,” says Csik. “If ownership is properly structured – for example, through a spouse or a trust – each shareholder may be entitled to their own exclusion amount.”

Those opportunities can become a valuable part of broader family planning strategies, says Martyn Babitz, of counsel at Archer.

“These benefits can also play an important role in passing wealth to future generations,” says Babitz. “With the right planning, families may be able to preserve more of their assets while reducing taxes along the way.”

For business owners considering a future sale, advisors say the message is clear: start the conversation early.

“The sooner business owners start thinking about this, the better,” says Diaz. “It's much easier to build these benefits into a strategy before a deal is on the table than after negotiations have already begun.”

For many companies, the decision may ultimately come down to balancing current operating considerations against future tax savings. But as federal and state laws continue to evolve, more business owners are beginning to see the C corporation structure in a new light.

“When the business is ultimately sold, shareholders may be able to exclude a significant portion – or potentially all – of the gain from the sale,” says Csik. “And for entrepreneurs planning years ahead, that possibility could be worth millions.” ■



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