The Employee's QSBS Playbook

How early employees keep their windfall, too

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This book has spent thirteen chapters talking to founders, and if you're an early employee you may have quietly assumed none of it was meant for you. That assumption is the most expensive one in this entire bonus chapter, because it is wrong. The tax code does not check your business card. It checks how you got your stock, in what kind of company, and how long you held it. Meet those tests and Section 1202 is yours too, exclusion and all, up to the same fifteen million dollars of gain, tax-free.

Almost no early employee knows this. Which is exactly why it's worth a chapter of its own.

The one word that changes everything: exercise

Here is the trap, and it's specific to employees. Most of you don't hold stock. You hold *options*, the right to buy stock later at a fixed price. And options are not QSBS. The QSBS clock, and the exclusion, attach to actual **shares**, which means the game for an employee begins the moment you **exercise** your options and turn them into stock.

That single fact reshapes the whole strategy for you. The founder's great lever was "move your shares into trusts early, while they're cheap." Your equivalent lever is "**exercise early, while the price is low.**" Exercise soon after you're granted, when the strike price and the stock's value are still tiny, and three good things happen at once: you start your five-year QSBS holding clock now, you lock in a low cost, and you keep your future gain almost entirely inside the exclusion.

Many early-stage companies allow **early exercise**, letting you buy your shares before they vest. If yours does, and you can afford the (usually small) cost at an early stage, it is often the single highest-return financial move available to you. And if you early-exercise, you file the same **83(b) election** the founders do, within thirty days, to start your clock on all the shares at once and lock in today's value. Thirty days. One page. The same unforgiving deadline.

What it can be worth

The exclusion is the greater of fifteen million dollars or ten times what you paid, and it is per person, per company, just as it is for a founder. Watch it work for an ordinary early hire.

EMPLOYEE #6, EXERCISED EARLY	
Shares exercised at a $0.05 strike	$25,000 cost
Value at exit, five years later	$5,000,000
Gain	$4,975,000
Federal tax, with QSBS	**$0**

Nearly five million dollars, entirely free of federal capital-gains tax, for an employee who simply exercised early, filed the form, and held. The colleague who waited, exercised at a high price the month before the sale, and never heard the letters "QSBS" pays full freight on the same outcome. Same company, same shares, wildly different April.

And if your equity is large enough that you'll blow past a single fifteen-million exclusion, everything the main book taught founders about **stacking** across trusts applies to you as well, on the same principles: real beneficiaries, real purpose, early transfers, genuine gifts. Most employees never need to reach that far. One exclusion is already life-changing.

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The mistakes early employees make

Assuming it's "just for founders." The most common and most costly. It is not. If your stock qualifies, so do you.

Exercising late, or never. Waiting until an exit means a high price, a big tax bill on exercise, and a clock that may never finish. Never exercising at all, because you left the company and let the window close, forfeits everything.

Skipping the 83(b) on an early exercise. Same disaster as for founders: your holding clock fragments and your value inflates. Thirty days, no exceptions.

Not knowing the company's size when you got in. QSBS needs the company to have been under the gross-assets ceiling ($75M under the 2025 rules) when your stock was issued. Employees who joined very early almost always clear this. It's worth confirming.

Not getting your attestation. Ask your company for QSBS attestation while you're there and the facts are fresh. It is far harder to reconstruct years later, and an acquirer's lawyers will ask for it.

Your five-minute action list

- ☐ Find out whether your equity is **stock or options**, and whether the company is a QSBS-eligible C-corporation.
- ☐ Ask whether your plan allows **early exercise**, and run the numbers on doing it now versus later.
- ☐ If you exercise, **file your 83(b) within 30 days**. Put it on the calendar the day you sign.
- ☐ Confirm the company was under the **gross-assets ceiling** when your stock was issued.
- ☐ Request a **QSBS attestation** from the company for your records.
- ☐ Mind the **five-year clock**, and talk to a qualified advisor *before* you sell, not after.

> **FIND OUT WHERE YOU STAND**
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> Not sure whether your equity qualifies, or whether it's worth exercising early? A short, free eligibility review will tell you, and show you how much of your window is still open. Start at **trellatrusts.com**.

law firm. QSBS (Section 1202) planning is complex and under active federal review; figures illustrate the rules as of 2026 and depend on your facts. Consult your own qualified attorney and tax adviser before acting.