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New Regulations for Section 199A Pass-Through Deduction

The Internal Revenue Service has recently released regulations for the IRC 199A 20% qualified business income deduction, also known as the "pass-through" deduction. Section 199A allows business owners to deduct up to 20% of their qualified business income (QBI) generated by sole proprietorships, partnerships, trusts and S corporations. Individuals, estates and trusts can also qualify for the 20% deduction in certain circumstances. The deduction was one of the most high-profile pieces of the Tax Cuts and Jobs Act. As with all areas of the Internal Revenue Code, there are many exclusions to the QBI deduction that must be considered.

As a general rule, the regulations are taxpayer-friendly, but there are exceptions.

- Individuals can aggregate businesses and treat them as a single business, which can effectively alleviate some of the otherwise applicable restrictions to claiming the deduction.
- A qualified business can generate up to 10% of its gross receipts from services without losing their ability to qualify for the deduction.
- A qualified business can include a related party rental activity.

The regulations prevent certain service-businesses from claiming the QBI deduction. In addition, some non-service businesses that are related to a service business are also disqualified. This can limit the effectiveness of strategies that try to create qualified business income.

These are just a few highlights; the regulations are lengthy and detailed in nature.

Please feel free to contact our office if you would like more information about these new rules. We can review your current business operations and organization structure to make sure you are taking full advantage of the deduction. We can also discuss planning strategies that will allow you to increase your deduction - both this year and in the future.

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