

Treasury Issues Proposed Regulations on New 20 Percent Deduction for Pass-Through Businesses

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Washington—The U.S. Department of the Treasury and Internal Revenue Service (IRS) issued [proposed regulations](#)  today implementing a significant provision of the Tax Cuts and Jobs Act, which allows owners of sole proprietorships, partnerships, trusts, and S corporations to deduct 20 percent of their qualified business income. The proposed rules ensure that this historic tax cut will be available to the broadest spectrum of American businesses, consistent with the law, while minimizing compliance costs and streamlining the process for claiming the deduction.

“The pass-through deduction is an important tax cut for small and mid-size businesses, reducing their effective tax rates to their lowest levels since the 1930s,” said Secretary Steven T. Mnuchin. “Pass-through businesses play a critical role in our economy. This 20-percent deduction will lead to more investment in U.S. companies and higher wages for hardworking Americans.”

The proposed rules:

1. Ensure that all small business income below \$315,000 for married couples filing jointly (and \$157,500 for single filers) is eligible for the deduction;
2. Provide clarity and flexibility for filers over those income thresholds by:
 - Including “aggregation rules” for filers with pass-through income from multiple sources;
 - Issuing guidance relating to specified service, trade or business (SSTB) income above the thresholds, which may be subject to limitation for the purposes of claiming the deduction; and
 - Allowing a de minimis exception to avoid unnecessary compliance costs for businesses earning only a small percentage of SSTB income; and

3. Establish anti-abuse safeguards to prevent improper tax avoidance schemes, such as relabeling employees as independent contractors.

Qualified business income includes domestic income from a trade or business. Employee income, capital gains, interest, and dividend income are excluded from this deduction.

[View the guidance.](#) 

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