IRS

IRS issues proposed regulations on new 20 percent deduction for passthrough businesses

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WASHINGTON — The Internal Revenue Service issued proposed regulations today for a new provision allowing many owners of sole proprietorships, partnerships, trusts and S corporations to deduct 20 percent of their qualified business income.

The new deduction -- referred to as the Section 199A deduction or the deduction for qualified business income -- was created by the Tax Cuts and Jobs Act. The deduction is available for tax years beginning after Dec. 31, 2017. Eligible taxpayers can claim it for the first time on the 2018 federal income tax return they file next year.

The deduction is generally available to eligible taxpayers whose 2018 taxable incomes fall below $315,000 for joint returns and $157,500 for other taxpayers. It's generally equal to the lesser of 20 percent of their qualified business income plus 20 percent of their qualified real estate investment trust dividends and qualified publicly traded partnership income or 20 percent of taxable income minus net capital gains.

Deductions for taxpayers above the $157,500/$315,000 taxable income thresholds may be limited. Those limitations are fully described in the proposed regulations.

Qualified business income includes domestic income from a trade or business. Employee wages, capital gain, interest and dividend income are excluded.

In addition, Notice 2018-64, also issued today, provides methods for calculating Form W-2 wages for purposes of the limitations on this deduction. More information in the form of FAQs on Section 199A can be found on IRS.gov.

Taxpayers may rely on the rules in these proposed regulations until final regulations are published in the Federal Register.

Written or electronic comments and requests for a public hearing on this proposed regulation must be received within 45 days of publication in the Federal Register.

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