

*An important tool used by a majority of Small Businesses, action is needed on 199A.*

According to the Tax Foundation, passthroughs, “make up the vast majority of businesses and more than 60 percent of net business income in America.” Passthroughs are especially common as the corporate structure of small companies. However, despite these large figures, passthroughs are uniquely vulnerable to recent changes in the tax code.

In 2017, the Tax Cuts and Jobs Act (TCJA) reduced the tax burden for nearly all Americans. Under the TCJA, the corporate tax rate was permanently reduced from 35% to 21%, which significantly reduced the historical tax incentive for certain concerns to operate as pass-through entities rather than corporations. As a result, the TCJA also included provisions which would reduce the individual taxable income from certain pass-through businesses by 20%, meaning those business owners were only subject to tax on 80% of their income in qualified cases (subject to income limitations and weighed against employee wages and qualified property). Exceptions include capital gains, dividends, interest payments, and employee wages, among others.

**While the corporate tax rate cut was permanent, this 20% pass-through income reduction was designed to expire at the end of 2025, effectively increasing taxes on pass-through businesses to support a corporate tax cut for the biggest companies.**

## WORKING SOLUTIONS

Multiple Members of Congress have introduced legislation to extend Section 199A. On January 23, 2025, Senator Steve Daines (R-MT) reintroduced the “Main Street Tax Certainty Act.” This act would make the 20% tax deduction for qualified business income (QBI) permanent. As of writing, there are 34 cosponsors of the Senate bill.

The 199A QBI deduction has also caught the attention of the House of Representatives, with Representative Lloyd Smucker (R-PA11) introducing a House companion to Daines’ bill simultaneously. The House version of the Main Street Tax Certainty Act is being introduced with 152 cosponsors.

Notably, the House version of this bill introduced last Congress garnered bipartisan support, with Representatives Henry Cuellar (D-TX28) and Josh Gottheimer (D-NJ05) as original cosponsors. Moreover, this issue is a priority for House Ways and Means Committee Chairman Jason Smith (R-MO08), a key figure in House leadership, who has indicated that his team are moving forward on the bill as a part of their economic agenda.

Congress needs to act to preserve this vital provision that benefits small companies nationwide. Without the extension of Section 199A, Small Businesses will see their tax bill increase overnight.