



What is the Small Business Deduction?

The 20 percent deduction for pass-through entities, one of the key provisions in the Tax Cuts and Jobs Act, means big savings for small business.



WHAT IS THE DEDUCTION?

The new Section 199A allows small businesses that are organized as pass-throughs to deduct 20 percent of their qualified business income from an S-Corporation, LLC, sole proprietorship, or partnership.

What is qualified business income?

Taxable income generated from a qualified pass-through business. This means the net amount of qualified items of income, gain, deduction, and loss with respect to the trade or business of the taxpayer.

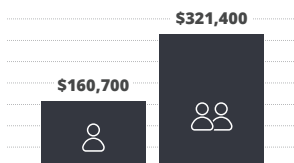
What doesn't qualify as business income?

Any amount paid by an S-Corporation or a partnership that is treated as reasonable compensation for the taxpayer.

WHO BENEFITS?

Owners of pass-through entities, regardless of industry, are eligible for the full 20 percent Small Business Deduction up to \$160,700 individual/\$321,400 joint in taxable income for tax year 2019.

For tax year 2020, the Small Business Deduction is up to \$163,300 individual/\$326,600 joint.



If a small business owner's income exceeds the above threshold:

- 1 For an owner of a specified service trade or business (SSTB),** the deduction fully phases out at \$210,700 individual/\$421,400 joint for tax year 2019. For tax year 2020, the deduction fully phases out at \$213,300 individual/\$426,600 joint.
- 2 For an owner in any other business type,** the deduction is limited to 50 percent of W-2 wages paid by the business and the unadjusted basis of certain property used by the business.

Sources: NFIB's Small Business Introduction to the Tax Cuts and Jobs Act: Part II

The majority of small business owners who are familiar with the Small Business Deduction say it's crucial for their companies.

0 10% 20% 30% 40% 50%

42%

believe the deduction is "very important"

30%

find it "somewhat important"

WHAT SMALL BUSINESSES SAY

“ Tax reform is twofold for our small business because the 20 percent deduction allows us greater revenues without additional tax liabilities, and in turn we will spend that extra revenue locally. This tax reform helps our customers also, and the business climate for contractors, suppliers, and vendors like us is just off-the-charts positive right now!”

— **NFIB member Angela Gibson**
Spokane, Washington



This **tax relief is set to expire after 2025** unless we urge Congress to make it permanent.

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