TAX

A provision of the 2017 tax reform law added a section to the individual tax code (26 U.S.C. §199A) that created a new 20% deduction on “qualified business income” for some owners and shareholders of pass-through businesses, such as subchapter S corporations, partnerships and sole proprietorships. On Jan. 18, 2019, the IRS issued final regulations implementing Section 199A of the tax code ensuring that a greater number of owners and shareholders of insurance agencies and brokerages organized as pass-through entities are eligible for the new deduction. However, the deduction is only available through the end of 2025. For the deduction to be available in 2026, Congress will have to act to extend Section 199A of the tax code for some additional amount of time or make the deduction permanent.

The Big “I” asks Congress to support S. 1149/H.R. 216, the Main Street Tax Certainty Act.

Earlier this year, Sen. Steve Daines (R-MT) introduced S. 1149 and Reps. Jason Smith (R-MO) and Henry Cuellar (D-TX) introduced H.R. 216, the “Main Street Tax Certainty Act.” This legislation would make permanent the 20% deduction on “qualified business income” for some owners and shareholders of pass through businesses.

Pass-through businesses of all sizes employ the majority of private sector workers—66 million workers or 55% of the total private sector workforce according to a 2015 report from the Tax Foundation. Approximately two-thirds of the insurance agencies and brokerages the Big “I” represents are organized as pass-through entities and are currently seeing significant benefits from the new deduction. Furthermore, agencies and brokerages employ millions of people across the U.S. and occupy numerous retail locations in every state. The new deduction has allowed insurance agency and brokerage owners to reinvest and grow their businesses, hire new employees, and better serve their customers.

Unlike the new 20% deduction for small businesses, the C-Corporation rate reduction in the 2017 tax reform law was made permanent. The deduction that S.1149/H.R. 216 seek to protect is crucial to enable these pass-through insurance agencies and brokerages across the country to compete with their C-Corporation counterparts that now have the benefit of a new permanent 21% tax rate. In addition, the small business tax deduction allows insurance agencies and brokerages to compete with larger employers of all industries for the best talent. To avoid an unlevel playing field in the future, this inequity should be rectified by making the 20% deduction for small businesses permanent.