

# Pass-Through Deduction

## Position

ICSC strongly supports a permanent extension of the 20% pass-through deduction (IRC section 199A).

## Issue

The 20% pass-through deduction expires at the end of 2025. Without action from Congress, many small businesses and real estate firms will see a dramatic tax increase.

## Background

Nearly all businesses – about 95% – are structured as “pass-through” entities, where the income from the business passes through to the owner and is taxed on their individual tax return. Pass-through businesses include sole proprietorships, partnerships, S corporations and Real Estate Investment Trusts (REITS).

Large, public companies are usually C corporations. Their income is taxed at the corporate level and again at the individual level if there is a dividend paid to the stockholder.

When Congress passed the 2017 Tax Cuts and Jobs Act, the tax rate for C corporations was lowered to 21%. This would have created a disparity for the pass-through sector, which are subject to a top rate of 37%. To ensure relative parity for both business types, section 199A was enacted to provide a 20% deduction on pass-through business income. For high-income taxpayers (over \$241,950 for single filers), the 199A deduction is tied to W-2 wages paid by the business. Thus the easiest way to qualify for the deduction is to create jobs.

Unfortunately, the 199A deduction expires at the end of 2025, while the corporate rate is permanently set to 21%.

## Request

**Cosponsor the Main Street Tax Certainty Act (S. 1706 & H.R. 4721) introduced by Senator Steve Daines (R-MT) and Representative Lloyd Smucker (R-PA).**

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**Nearly all businesses – about 95% – are structured as “pass-through” entities, where the income from the business passes through to the owner and is taxed on their individual tax return.**

**Pass-through businesses employ over 60% of the U.S. private-sector workforce.**

**According to an EY study the total U.S. economic activity supported by the Section 199A deduction in 2024 is estimated to be 2.6 million workers earning \$161 billion and generating \$325 billion of GDP.**

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