

1 **PART II—DEDUCTION FOR QUALIFIED BUSINESS**  
2 **INCOME OF PASS-THRU ENTITIES**

3 **SEC. 11011. DEDUCTION FOR QUALIFIED BUSINESS IN-**  
4 **COME.**

5 (a) **IN GENERAL.**—Part VI of subchapter B of chap-  
6 ter 1 is amended by adding at the end the following new  
7 section:

8 **“SEC. 199A. QUALIFIED BUSINESS INCOME.**

9 “(a) **IN GENERAL.**—In the case of a taxpayer other  
10 than a corporation, there shall be allowed as a deduction  
11 for any taxable year an amount equal to the lesser of—

12 “(1) the combined qualified business income  
13 amount of the taxpayer, or

14 “(2) an amount equal to 17.4 percent of the ex-  
15 cess (if any) of—

16 “(A) the taxable income of the taxpayer  
17 for the taxable year, over

18 “(B) any net capital gain (as defined in  
19 section 1(h)) of the taxpayer for the taxable  
20 year.

21 “(b) **COMBINED QUALIFIED BUSINESS INCOME**  
22 **AMOUNT.**—For purposes of this section—

23 “(1) **IN GENERAL.**—The term ‘combined quali-  
24 fied business income amount’ means, with respect to  
25 any taxable year, an amount equal to—

1           “(A) the sum of the amounts determined  
2           under paragraph (2) for each qualified trade or  
3           business carried on by the taxpayer, plus

4           “(B) 17.4 percent of the aggregate amount  
5           of the qualified REIT dividends and qualified  
6           cooperative dividends of the taxpayer for the  
7           taxable year.

8           “(2) DETERMINATION OF DEDUCTIBLE  
9           AMOUNT FOR EACH TRADE OR BUSINESS.—The  
10          amount determined under this paragraph with re-  
11          spect to any qualified trade or business is the lesser  
12          of—

13           “(A) 17.4 percent of the taxpayer’s quali-  
14           fied business income with respect to the quali-  
15           fied trade or business, or

16           “(B) 50 percent of the W-2 wages with re-  
17           spect to the qualified trade or business.

18           “(3) MODIFICATIONS TO THE WAGE LIMIT  
19          BASED ON TAXABLE INCOME.—

20           “(A) EXCEPTION FROM WAGE LIMIT.—In  
21           the case of any taxpayer whose taxable income  
22           for the taxable year does not exceed the thresh-  
23           old amount, paragraph (2) shall be applied  
24           without regard to subparagraph (B).

1                   “(B) PHASE-IN OF LIMIT FOR CERTAIN  
2                   TAXPAYERS.—

3                   “(i) IN GENERAL.—If—

4                   “(I) the taxable income of a tax-  
5                   payer for any taxable year exceeds the  
6                   threshold amount, but does not exceed  
7                   the sum of the threshold amount plus  
8                   \$50,000 (\$100,000 in the case of a  
9                   joint return), and

10                   “(II) the amount determined  
11                   under paragraph (2)(B) (determined  
12                   without regard to this subparagraph)  
13                   with respect to any qualified trade or  
14                   business carried on by the taxpayer is  
15                   less than the amount determined  
16                   under paragraph (2)(A) with respect  
17                   such trade or business,

18                   then paragraph (2) shall be applied with  
19                   respect to such trade or business without  
20                   regard to subparagraph (B) thereof and by  
21                   reducing the amount determined under  
22                   subparagraph (A) thereof by the amount  
23                   determined under clause (ii).

24                   “(ii) AMOUNT OF REDUCTION.—The  
25                   amount determined under this subpara-

1 graph is the amount which bears the same  
2 ratio to the excess amount as—

3 “(I) the amount by which the  
4 taxpayer’s taxable income for the tax-  
5 able year exceeds the threshold  
6 amount, bears to

7 “(II) \$50,000 (\$100,000 in the  
8 case of a joint return).

9 “(iii) EXCESS AMOUNT.—For pur-  
10 poses of clause (ii), the excess amount is  
11 the excess of—

12 “(I) the amount determined  
13 under paragraph (2)(A) (determined  
14 without regard to this paragraph),  
15 over

16 “(II) the amount determined  
17 under paragraph (2)(B) (determined  
18 without regard to this paragraph).

19 “(4) WAGES, ETC.—

20 “(A) IN GENERAL.—The term ‘W-2 wages’  
21 means, with respect to any person for any tax-  
22 able year of such person, the amounts described  
23 in paragraphs (3) and (8) of section 6051(a)  
24 paid by such person with respect to employment

1 of employees by such person during the cal-  
2 endar year ending during such taxable year.

3 “(B) LIMITATION TO WAGES ATTRIB-  
4 UTABLE TO QUALIFIED BUSINESS INCOME.—  
5 Such term shall not include any amount which  
6 is not properly allocable to qualified business  
7 income for purposes of subsection (c)(1).

8 “(C) RETURN REQUIREMENT.—Such term  
9 shall not include any amount which is not prop-  
10 erly included in a return filed with the Social  
11 Security Administration on or before the 60th  
12 day after the due date (including extensions)  
13 for such return.

14 “(5) ACQUISITIONS, DISPOSITIONS, AND SHORT  
15 TAXABLE YEARS.—The Secretary shall provide for  
16 the application of this subsection in cases of a short  
17 taxable year or where the taxpayer acquires, or dis-  
18 poses of, the major portion of a trade or business or  
19 the major portion of a separate unit of a trade or  
20 business during the taxable year.

21 “(c) QUALIFIED BUSINESS INCOME.—For purposes  
22 of this section—

23 “(1) IN GENERAL.—The term ‘qualified busi-  
24 ness income’ means, for any taxable year, the net  
25 amount of qualified items of income, gain, deduc-

1       tion, and loss with respect to any qualified trade or  
2       business of the taxpayer.

3           “(2) CARRYOVER OF LOSSES.—If the net  
4       amount of qualified income, gain, deduction, and  
5       loss with respect to qualified trade or businesses of  
6       the taxpayer amount for any taxable year is less  
7       than zero, such amount shall be treated as a loss  
8       from a qualified trade or business in the succeeding  
9       taxable year.

10           “(3) QUALIFIED ITEMS OF INCOME, GAIN, DE-  
11       DUCTION, AND LOSS.—For purposes of this sub-  
12       section—

13           “(A) IN GENERAL.—The term ‘qualified  
14       items of income, gain, deduction, and loss’  
15       means items of income, gain, deduction, and  
16       loss to the extent such items are—

17           “(i) effectively connected with the con-  
18       duct of a trade or business within the  
19       United States (within the meaning of sec-  
20       tion 864(c), determined by substituting  
21       ‘qualified trade or business (within the  
22       meaning of section 199A)’ for ‘nonresident  
23       alien individual or a foreign corporation’ or  
24       for ‘a foreign corporation’ each place it ap-  
25       pears), and



1 contracts entered into in transactions  
2 qualifying under section 1221(a)(7).

3 “(vi) Any amount received from an  
4 annuity which is not received in connection  
5 with the trade or business.

6 “(vii) Any item of deduction or loss  
7 properly allocable to an amount described  
8 in any of the preceding clauses.

9 “(4) TREATMENT OF REASONABLE COMPENSA-  
10 TION AND GUARANTEED PAYMENTS.—Qualified busi-  
11 ness income shall not include—

12 “(A) reasonable compensation paid to the  
13 taxpayer by any qualified trade or business of  
14 the taxpayer for services rendered with respect  
15 to the trade or business,

16 “(B) any guaranteed payment described in  
17 section 707(c) paid to a partner for services  
18 rendered with respect to the trade or business,  
19 and

20 “(C) to the extent provided in regulations,  
21 any payment described in section 707(a) to a  
22 partner for services rendered with respect to the  
23 trade or business.

24 “(d) QUALIFIED TRADE OR BUSINESS.—For pur-  
25 poses of this section—



1           “(1) IN GENERAL.—The term ‘qualified trade  
2 or business’ means any trade or business other than  
3 a specified service trade or business.

4           “(2) SPECIFIED SERVICE TRADE OR BUSI-  
5 NESS.—

6           “(A) IN GENERAL.—The term ‘specified  
7 service trade or business’ means—

8                   “(i) any trade or business involving  
9 the performance of services described in  
10 section 1202(e)(3)(A), including investing  
11 and investment management, trading, or  
12 dealing in securities (as defined in section  
13 475(c)(2)), partnership interests, or com-  
14 modities (as defined in section 475(e)(2)).

15           “(3) EXCEPTION FOR SPECIFIED SERVICE BUSI-  
16 NESSES BASED ON TAXPAYER’S INCOME.—

17           “(A) IN GENERAL.—If, for any taxable  
18 year, the taxable income of any taxpayer is less  
19 than the sum of the threshold amount plus  
20 \$50,000 (\$100,000 in the case of a joint re-  
21 turn), then—

22                   “(i) the exception under paragraph  
23 (1) shall not apply to specified service  
24 trades or businesses of the taxpayer for the  
25 taxable year, but

1                   “(ii) only the applicable percentage of  
2                   qualified items of income, gain, deduction,  
3                   or loss, and the W-2 wages, of the tax-  
4                   payer allocable to such specified service  
5                   trades or businesses shall be taken into ac-  
6                   count in computing the qualified business  
7                   income and W-2 wages of the taxpayer for  
8                   the taxable year for purposes of applying  
9                   this section.

10                   “(B) APPLICABLE PERCENTAGE.—For  
11                   purposes of subparagraph (A), the term ‘appli-  
12                   cable percentage’ means, with respect to any  
13                   taxable year, 100 percent reduced (not below  
14                   zero) by the percentage equal to the ratio of—

15                   “(i) the taxable income of the tax-  
16                   payer for the taxable year in excess of the  
17                   threshold amount, bears to

18                   “(ii) \$50,000 (\$100,000 in the case of  
19                   a joint return).

20                   “(e) OTHER DEFINITIONS.—For purposes of this  
21                   section—

22                   “(1) TAXABLE INCOME.—Taxable income shall  
23                   be computed without regard to the deduction allow-  
24                   able under this section.

25                   “(2) THRESHOLD AMOUNT.—

1           “(A) IN GENERAL.—The term ‘threshold  
2 amount’ means \$250,000 (200 percent of such  
3 amount in the case of a joint return).

4           “(B) INFLATION ADJUSTMENT.—In the  
5 case of any taxable year beginning after 2018,  
6 the dollar amount in paragraph (1) shall be in-  
7 creased by an amount equal to—

8                   “(i) such dollar amount, multiplied by

9                   “(ii) the cost-of-living adjustment de-  
10 termined under section 1(f)(3) for the cal-  
11 endar year in which the taxable year be-  
12 gins.

13           If any amount as increased under the preceding  
14 sentence is not a multiple of \$1,000, such  
15 amount shall be rounded to the nearest multiple  
16 of \$1,000.

17           “(3) QUALIFIED REIT DIVIDEND.—The term  
18 ‘qualified REIT dividend’ means any dividend from  
19 a real estate investment trust received during the  
20 taxable year which—

21                   “(A) is not a capital gain dividend, as de-  
22 fined in section 857(b)(3), and

23                   “(B) is not qualified dividend income, as  
24 defined in section 1(h)(11).

1           “(4) QUALIFIED COOPERATIVE DIVIDEND.—

2           The term ‘qualified cooperative dividend’ means any  
3           patronage dividend (as defined in section 1388(a)),  
4           any per-unit retain allocation (as defined in section  
5           1388(f)), and any qualified written notice of alloca-  
6           tion (as defined in section 1388(c)), or any similar  
7           amount received from an organization described in  
8           subparagraph (B)(ii), which—

9                   “(A) is includible in gross income, and

10                   “(B) is received from—

11                           “(i) an organization or corporation de-  
12                           scribed in section 501(c)(12) or 1381(a),

13                           or

14                           “(ii) an organization which is gov-  
15                           erned under this title by the rules applica-  
16                           ble to cooperatives under this title before  
17                           the enactment of subchapter T.

18           “(f) SPECIAL RULES.—

19                   “(1) APPLICATION TO PARTNERSHIPS AND S  
20                   CORPORATIONS.—

21                           “(A) IN GENERAL.—In the case of a part-  
22                           nership or S corporation—

23                           “(i) this section shall be applied at the  
24                           partner or shareholder level,

1                   “(ii) each partner or shareholder shall  
2                   take into account such person’s allocable  
3                   share of each qualified item of income,  
4                   gain, deduction, and loss, and

5                   “(iii) each partner or shareholder  
6                   shall be treated for purposes of subsection  
7                   (b) as having W-2 wages for the taxable  
8                   year in an amount equal to such person’s  
9                   allocable share of the W-2 wages of the  
10                  partnership or S corporation for the tax-  
11                  able year (as determined under regulations  
12                  prescribed by the Secretary).

13                  For purposes of clause (iii), a partner’s or  
14                  shareholder’s allocable share of W-2 wages shall  
15                  be determined in the same manner as the part-  
16                  ner’s or shareholder’s allocable share of wage  
17                  expenses. For purposes of this subparagraph, in  
18                  the case of an S corporation, an allocable share  
19                  shall be the shareholder’s pro rata share of an  
20                  item.

21                  “(B) APPLICATION TO TRUSTS AND ES-  
22                  TATES.—This section shall not apply to any  
23                  trust or estate.

24                  “(C) TREATMENT OF TRADES OR BUSI-  
25                  NESS IN PUERTO RICO.—

1                   “(i) IN GENERAL.—In the case of any  
2 taxpayer with qualified business income  
3 from sources within the commonwealth of  
4 Puerto Rico, if all such income is taxable  
5 under section 1 for such taxable year, then  
6 for purposes of determining the qualified  
7 business income of such taxpayer for such  
8 taxable year, the term ‘United States’ shall  
9 include the Commonwealth of Puerto Rico.

10                   “(ii) SPECIAL RULE FOR APPLYING  
11 WAGE LIMITATION.—In the case of any  
12 taxpayer described in clause (i), the deter-  
13 mination of W-2 wages of such taxpayer  
14 with respect to any qualified trade or busi-  
15 ness conducted in Puerto Rico shall be  
16 made without regard to any exclusion  
17 under section 3401(a)(8) for remuneration  
18 paid for services in Puerto Rico.

19                   “(2) COORDINATION WITH MINIMUM TAX.—For  
20 purposes of determining alternative minimum tax-  
21 able income under section 55, qualified business in-  
22 come shall be determined without regard to any ad-  
23 justments under sections 56 through 59.

1           “(3) DEDUCTION LIMITED TO INCOME  
2 TAXES.—The deduction under subsection (a) shall  
3 only be allowed for purposes of this chapter.

4           “(4) REGULATIONS.—The Secretary shall pre-  
5 scribe such regulations as are necessary to carry out  
6 the purposes of this section, including regulations—

7                   “(A) for requiring or restricting the alloca-  
8 tion of items and wages under this section and  
9 such reporting requirements as the Secretary  
10 determines appropriate, and

11                   “(B) for the application of this section in  
12 the case of tiered entities.

13           “(g) TERMINATION.—This section shall not apply to  
14 taxable years beginning after December 31, 2025.”.

15           (b) ACCURACY-RELATED PENALTY ON DETERMINA-  
16 TION OF APPLICABLE PERCENTAGE.—Section 6662(d)(1)  
17 is amended by inserting at the end the following new sub-  
18 paragraph:

19                   “(C) SPECIAL RULE FOR TAXPAYERS  
20 CLAIMING SECTION 199A DEDUCTION.—In the  
21 case of any taxpayer who claims the deduction  
22 allowed under section 199A for the taxable  
23 year, subparagraph (A) shall be applied by sub-  
24 stituting ‘5 percent’ for ‘10 percent’.”.

25           (c) CONFORMING AMENDMENTS.—

1           (1) Section 170(b)(2)(D) is amended by strik-  
2           ing “, and” at the end of clause (iv), by redesignig-  
3           nating clause (v) as clause (vi), and by inserting  
4           after clause (iv) the following new clause:

5                         “(v) section 199A, and”.

6           (2) Section 172(d) is amended by adding at the  
7           end the following new paragraph:

8                         “(8) QUALIFIED BUSINESS INCOME DEDUC-  
9           TION.—The deduction under section 199A shall not  
10           be allowed.”.

11           (3) Section 246(b)(1) is amended by inserting  
12           “199A,” before “243(a)(1)”.

13           (4) Section 613(a) is amended by inserting  
14           “and without the deduction under section 199A”  
15           after “and without the deduction under section  
16           199”.

17           (5) Section 613A(d)(1) is amended by redesignig-  
18           nating subparagraphs (C), (D), and (E) as subpara-  
19           graphs (D), (E), and (F), respectively, and by in-  
20           serting after subparagraph (B), the following new  
21           subparagraph:

22                         “(C) any deduction allowable under section  
23                         199A,”.