

PASS-THROUGH BUSINESS DEDUCTION

By: BRIAN T. OSTENDORF, CPA

In February, Conner Ash distributed an overview of the pass-through business deduction. As a recap, this deduction allows certain businesses taxed as pass-through businesses a deduction of up to 20% of qualifying business income. The calculation can be rather complex and tedious depending on the taxpayer's income as well as the type of business the taxpayer operates. Additionally, taxpayers may encounter other restrictions limiting their deduction.

Unfortunately, there has been little development in this area and many questions still need to be addressed by the IRS. To advance this dialogue, in February the AICPA sent a letter to the IRS requesting clarification on a number of topics related to this deduction. A full preview of this letter can be found on the AICPA's website. Among other things, the topics requesting clarification include:

1. What service related businesses qualify for the deduction and how will the income phase out be applied?
2. Will rental real estate businesses qualify for the deduction and, if so, how will the income phase out be applied?
3. How is the deduction determined when dealing with multiple pass through businesses under common ownership?
4. How will businesses operating at a net loss will be impacted by the deduction?

Given the level of uncertainty associated with how the IRS will respond to the AICPA's request for clarification on various topics related to the pass-through business deduction, it seems premature to make any business decisions based on a current interpretation of the new tax law. In general, as a Firm, we currently believe our clients are best advised to wait and see how



these uncertainties are resolved before considering the pass-through business deduction and related impact on their business models.

If you have questions about this or any other business or tax issue, please contact your Account Manager or Brian Ostendorf, CPA at (314) 205-2510 or by email at bostendorf@connerash.com.