

"Tax Tips: Service businesses face uncertain path to pass-through business income deduction"



Carl J. Grassi | Monday, February 5, 2018

The Tax Cuts and Jobs Act creates a new deduction for individual taxpayers who have pass-through business income.

Pass-through business income consists of income derived from sole proprietorships and from entities such as partnerships, LLCs and S corporations that are not subject to entity-level tax. With the new deduction, up to 20% of pass-through business income will be deductible.

This will be very welcome relief for many business owners who will see the top effective federal tax rate on their business income drop from 39.6% to 29.6%. However, the benefit of the new deduction will be out of reach for many service providers because of restrictions placed on "specified service trades and businesses."

All business owners are fully eligible for the deduction if their taxable incomes do not exceed \$315,000 for married taxpayers filing jointly (\$157,500 for single taxpayers). Limitations begin to set in above those levels. In the case of income from specified service trades and businesses, the deduction phases out above those thresholds and is fully phased out for those service providers with taxable incomes of at least \$415,000 for married taxpayers filing jointly (\$207,500 for single taxpayers).

Unfortunately, the legislative language is far from clear on which service businesses are subject to the phase-out. For purposes of the new deduction, "specified service trades and businesses" are defined by reference to a list of service businesses found elsewhere in the tax code. That list, which describes businesses that do not qualify for the preferential tax treatment on "qualified small business stock," includes "any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees."

[Click here to read the entire article in Crain's Cleveland Business.](#)



Carl J. Grassi

Team member bio

Tax Tips Service businesses face uncertain path to pass through business income deduction

