



## IRS Issues FINAL Regulations on New 20 Percent Deduction for Pass-Through Businesses

The Internal Revenue Service (IRS) recently issued final regulations governing Section 199A of the tax code. A draft regulation was previously issued in August. **IN VERY POSITIVE NEWS FOR BIG “I” MEMBERS, THE FINAL RULE CONFIRMS THAT OWNERS AND SHAREHOLDERS OF INSURANCE AGENCIES AND BROKERAGES ORGANIZED AS PASS-THROUGH ENTITIES ARE ELIGIBLE FOR A TAX DEDUCTION OF UP TO 20% ON QUALIFIED BUSINESS INCOME—REGARDLESS OF TAXABLE INCOME LEVEL.**

Under the regulation, owners and shareholders of insurance agencies and brokerages can take the 20% tax deduction on qualified business income, no matter their taxable income levels, because the IRS does not consider insurance agents and brokers to be engaged in a “specified service trade or business.” Owners and shareholders of “specified service trades and businesses” cannot take advantage of the deduction if their taxable income is over a certain level.

Section 199A provides the 20% tax deduction to an owner or shareholder of a pass-through entity where the owner or shareholder’s annual taxable income does not exceed \$315,000 for joint filers and \$157,500 for single filers in 2018. In other words, all owners or shareholders that are organized as pass-throughs under the above income thresholds can utilize the full 20% deduction. However, an owner or shareholder of a “specified service trade or business” with annual taxable income between \$315,000 - \$415,000 (joint) and \$157,500 - \$207,500 (single) will slowly see the deduction phased out and those above \$415,000 (joint) and \$207,500 (single) will be prohibited from utilizing the new deduction. **Because insurance agencies and brokerages are NOT a specified service trade or business, it means that those with annual taxable income above the \$315,000 (joint) and \$157,500 (single) thresholds can take advantage of the deduction to the fullest extent possible.** But, for all pass-throughs the total amount of the deduction for those at these upper income levels cannot exceed 50% of employee W-2 wages, or 25% of W-2 wages plus 2.5% of capital assets (e.g. tangible property purchased for the business), whichever is greater.

Of course, this did not happen by chance. Since passage of the 2017 tax reform law the Big “I” has been aggressively advocating before Congress and the Administration that insurance agencies and brokerages should not be considered a specified service trade or business and has made this our top federal issue due to the importance to many of our members. The Big “I” met with the Administration and Congressional offices on numerous occasions, submitted multiple written comment letters to the Administration before and after the release of the initial draft regulations in early August, and most recently worked in late December/early January to have [a draft Treasury worksheet](#) on the deduction revised to make it clear that insurance agents and brokers could benefit fully from the new

deduction. We also worked closely as part of a coalition with the Council of Insurance Agents & Brokers and the National Association of Realtors to achieve the best possible results for our collective memberships.

Big "I" staff is currently reviewing the full regulation and will provide more detailed information in the near future – including articles, videos, and webinars. While not being considered a specified service trade or business, Big "I" members should consult with their accountants on how these regulations directly apply to them as they are complicated and multi-faceted.