119TH CONGRESS, 1ST SESSION

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June 17, 2025

Honorable Elizabeth Warren
United States Senate
SH-311
Washington, D.C. 20515

Dear Senator Warren:

This is in partial response to your letter of June 16, 2025, requesting economic analysis related to Internal Revenue Code section 199A. Among your requests, you asked for the latest available information on the income levels of the individuals who benefit the most from the 199A deduction, the value of the benefit received, the size and type of businesses, and the industries that most benefit from the 199A deduction. I enclose a study undertaken by the staff of the Joint Committee on Taxation in partial response to your request.

I hope this information is helpful to you.

Sincerely,

Thomas A Barthold

Thomas A. Barthold

DATA RELATED TO DEDUCTIONS CLAIMED UNDER CODE SECTION 199A

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION

December 2024

PRESENT LAW

Section 199A is effective for taxable years beginning after December 31, 2017, and before January 1, 2026. Section 199A generally permits an individual taxpayer to deduct 20 percent of qualified business income ("QBI") from a partnership, S corporation, or sole proprietorship, as well as 20 percent of aggregate qualified real estate investment trusts ("REIT") dividends and qualified publicly traded partnership ("PTP") income. Eligible taxpayers also include fiduciaries and beneficiaries of trusts and estates.

The section 199A deduction is reduced or disallowed (*i.e.*, the deduction is phased out) under limitations based on W-2 wages and capital investment. These limitations apply starting at a threshold amount of taxable income (computed without regard to the 20-percent deduction). A reduction or disallowance of the section 199A deduction for income of specified service trades or businesses ("SSTBs") also starts to apply at the threshold amount of taxable income. When these limitations apply to a taxpayer, the section 199A deduction is phased out over a range of taxable incomes above that amount.

In 2024, the beginning and end points of the taxable income phaseout range associated with section 199A are $383,900 and $483,900 for married taxpayers filing jointly and $191,950 and $241,950 for taxpayers of other filing statuses.

Amounts of Section 199A Deductions

Table 1. Section 199A Aggregate Totals – 2018-2022

Tax Year	Tax Units Claiming (millions)	Section 199A Deductions (millions of dollars)	Decrease in Tax Liability (millions of dollars)
2018	18.7	149,950.9	42,828.6
2019	22.2	155,249.2	44,136.2
2020	22.8	166,114.0	48,009.8
2021	25.9	205,779.7	61,104.1
2022	25.6	216,078.7	64,269.1

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data.

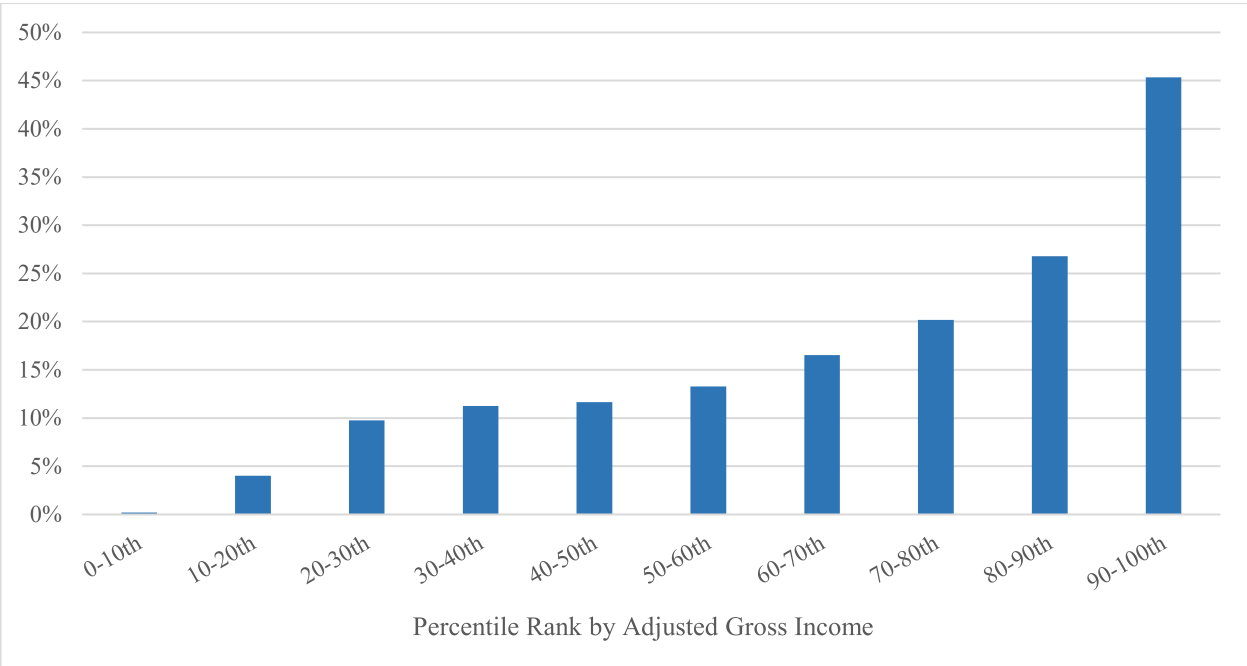
In 2018, the first year for which section 199A was effective, Internal Revenue Service ("IRS") data show that 19 million tax units claimed $150 billion of deductions associated with section 199A. The amount of these deductions has steadily increased in claimants and dollars each year, as shown above in Table 1. In 2022, the most recent year for which IRS data are available, 25.6 million tax units claimed $216 billion of deductions associated with section 199A.

The remainder of this letter focuses on tax year 2022, the most recent year that data are available that capture employer-employee linkages. In 2022, section 199A deductions totaled $216 billion, and reduced collected tax revenue by approximately $64 billion.

As mentioned earlier, income eligible for section 199A is made up of two components: (1) QBI, and (2) REIT dividends and PTP income. The QBI component accounts for the vast majority of section 199A dollars. REIT dividends and PTP income accounted for just $2.9 billion of the $216 billion in section 199A deductions in 2022.

Distribution of Section 199A Deductions

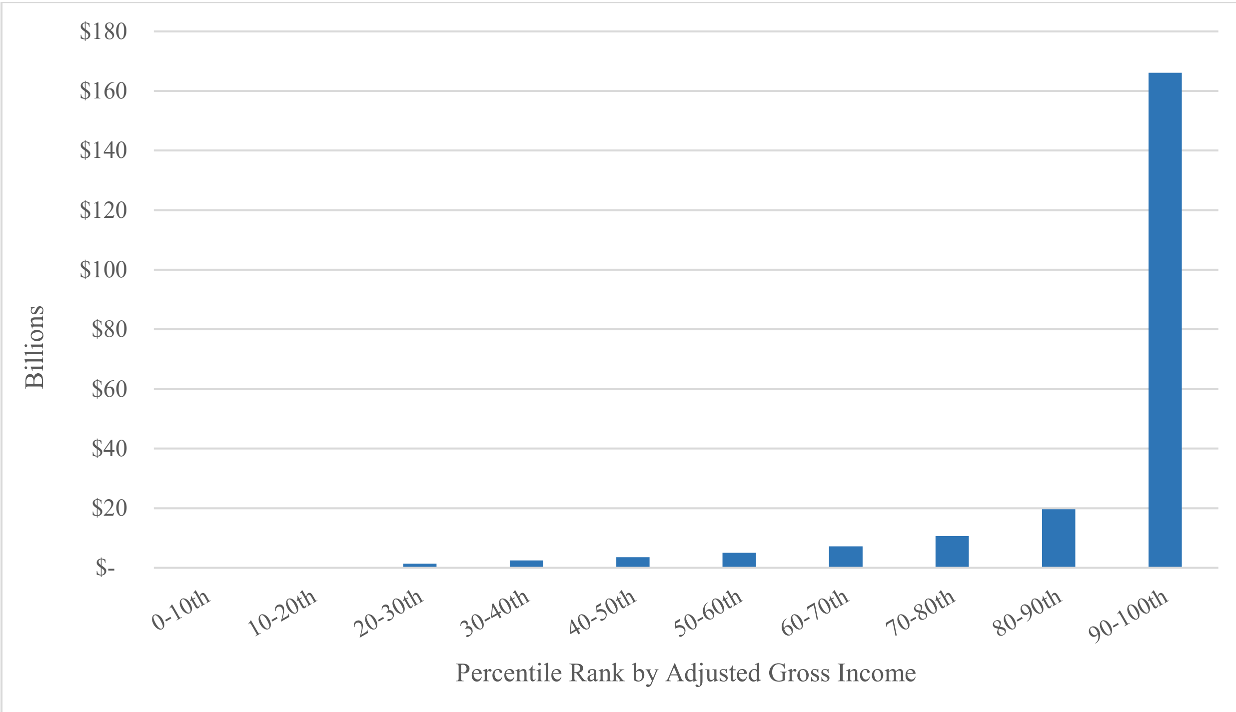
Figure 1.−Share of Tax Units Claiming a Section 199A Deduction by AGI Decile in 2022



Notes: Fractions calculated by Joint Committee staff using Internal Revenue Service data. The cut-off values for each decile are approximately $8,000 for the second decile, $16,000 for the third decile, $26,000 for the fourth decile, $36,000 for the fifth decile, $47,000 for the sixth decile; $62,000 for the seventh decile; $82,000 for the eighth decile; $114,000 for the ninth decile; $174,000 for the top decile.

Figure 1 displays the percent of taxpayers in each decile of adjusted gross income ("AGI") that claimed a section 199A deduction. The likelihood the tax unit would deduct income under section 199A is increasing with AGI. Taxpayers in the top AGI decile were the most likely to claim the section 199A deduction, with over 45 percent of these taxpayers deducting some amount of QBI. Approximately 11 percent of taxpayers outside the top AGI decile utilized the section 199A deduction in 2022.

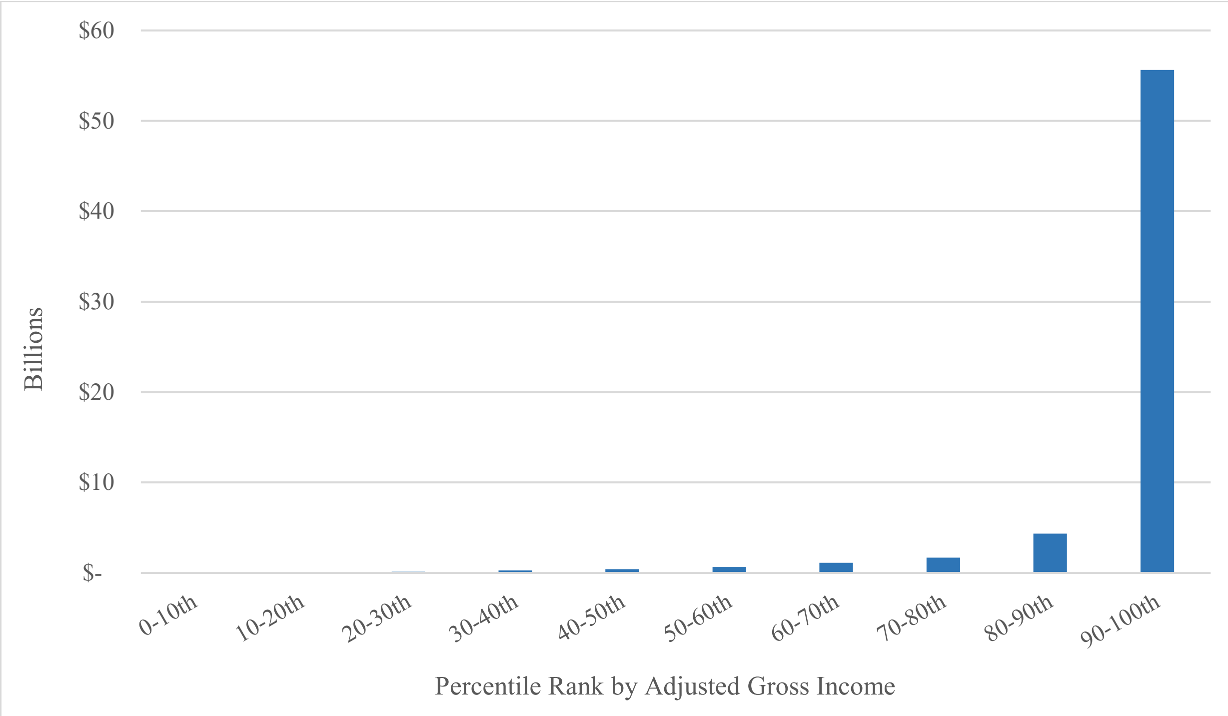
Figure 2.− Sec. 199A Deductions by AGI Decile in 2022



Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. The cut-off values for each decile are approximately $8,000 for the second decile, $16,000 for the third decile, $26,000 for the fourth decile, $36,000 for the fifth decile, $47,000 for the sixth decile; $62,000 for the seventh decile; $82,000 for the eighth decile; $114,000 for the ninth decile; $174,000 for the top decile.

Figure 2 displays the total section 199A deductions claimed by taxpayers in each decile of AGI. Similar to Figure 1, deductions taken under section 199A are increasing with AGI. Those in the top decile, taxpayers with AGIs of at least $174,000, account for approximately 77 percent of all section 199A deductions. The top decile of the income distribution of the tax filing population accounted for $166.1 billion of the $216.1 billion in deductions associated with section 199A in 2022.

Figure 3.− Decrease in Tax Liability from Sec. 199A by AGI Decile in 2022



Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. The cut-off values for each decile are approximately $8,000 for the second decile, $16,000 for the third decile, $26,000 for the fourth decile, $36,000 for the fifth decile, $47,000 for the sixth decile; $62,000 for the seventh decile; $82,000 for the eighth decile; $114,000 for the ninth decile; $174,000 for the top decile.

Figure 3 displays the decrease in tax liability from section 199A deductions by each income decile in 2022. Due to the individual income tax's progressive marginal tax rate structure, where tax units with higher taxable incomes generally have higher marginal tax rates, relative to the deduction amounts alone the benefit in terms of tax liability reduction is larger for those with higher incomes. Those in the top decile, taxpayers with AGIs of at least $174,000, account for approximately 87 percent of all tax liability reductions under section 199A. The top decile of the income distribution of the tax filing population accounted for $55.6 billion of the $64.2 billion in tax liability reductions associated with section 199A in 2022.

The rules of section 199A limit who may claim the deduction. For owners with incomes above the phaseout thresholds – which differ by filing status – the rules disqualify income from trades or businesses that either are SSTBs, or do not pay sufficient W-2 wages or own enough capital assets. All business owners subject to these rules—those with taxable incomes within or above the phaseout range—are required to file Form 8995-A.[1] On Form 8995-A, the business owner is required to report whether their business is an SSTB, their allocable share of W-2 wages paid, and their allocable share of qualified property.

For owners with taxable incomes above the deduction phaseout end point, income from an SSTB is not eligible for the section 199A deduction. For owners with taxable income within

[1] Taxpayers with a taxable income below the phaseout threshold fill out the simplified Form 8995.

the phaseout range, the business income from an SSTB can be deducted under section 199A at a lower rate. The other rules, while limiting, work differently. The wage and capital rules require that the business owner benefitting from the deduction is meeting certain thresholds for employing workers or operating a capital-intensive business. The business owner's QBI is limited by the greater of 50 percent of their allocable share of W-2 wages paid or 2.5 percent of their allocable share of qualified property. Owners with incomes above the taxable income limits are still able to deduct 20 percent of their QBI if the SSTB, W-2 wages, and capital asset limits do not apply.[2]

Table 2.−Section 199A Deductions by Modified Taxable Income in 2022

Modified Taxable Income	Tax Units Claiming (millions)	Section 199A Deductions (millions of dollars)	Decrease in Tax Liability (millions of dollars)
Below the Phase-Out Threshold	23.4	95,264.3	19,933.5
Above the Phase-Out Threshold	2.1	120,814.3	44,335.6
TOTAL	**25.6**	**216,078.7**	**64,269.1**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Totals may not add due to rounding.

Table 2 shows that taxpayers with incomes above the income phaseout claim a relatively high portion of the deduction dollars. Approximately 8.5 percent of taxpayers had taxable incomes, before the section 199A deduction, greater than the phaseout range for their filing status.[3] These taxpayers accounted for 56 percent of all dollars deducted under section 199A in 2022 and 69 percent of the tax liability reduction.

Entities Generating Section 199A Deductions

On box 1 of Form 8995 or Form 8995-A, taxpayers list information about the trade or business from which they received QBI. The Joint Committee staff were able to match this information to entity level filings, allowing analysis of the filing type, industry, and employment status of entities generating section 199A deductions. While this information was not available for paper-filers, the Joint Committee staff were able to retrieve entity level information for electronic filings. Approximately 24.0 million out of 25.6 million taxpayers claiming section

[2] Assessing the amount of section 199A deductions that are generated by SSTBs, or prevented by the SSTB limitation, is difficult given existing reporting requirements and IRS data infrastructure. There are two tax forms for reporting in this area, Form 8995-A and Form 8995. Taxpayers with taxable income amounts below the deduction phaseout threshold complete Form 8995, which does not include any reporting on whether the trade or business generating the deduction is an SSTB. Thus, any SSTB whose owners all have taxable incomes below the amount of the phaseout threshold will not report anything relating to an SSTB. Similarly, any SSTB whose owners all have taxable income amounts in excess of the phaseout threshold will be excluded from the data.

[3] The 2022 deduction phaseout ranges were taxable income above $340,100 up to $440,100 for taxpayers married filing jointly and above $170,050 up to $220,050 for all other filing statuses – including single filers.

199A filed electronically, making up 94 percent of the section 199A population. In dollar terms, electronic filers claimed $202.3 billion in deductions out of $216.1 billion in total section 199A deductions in 2022, 94 percent of section 199A dollars. This approximates the population totals closely enough that the patterns are likely broadly representative of the full population.[4]

A taxpayer can have business income from multiple entities. If the tax unit has incomes at or above the deduction phaseout threshold, deductions from certain entities may be limited. In these cases, it is not possible to assign a fraction of the deduction to a specific entity. As a proxy for this, the estimates in the remainder of this letter are calculated pro-rata by assigning the deduction to each entity in proportion to the amount of income generated by the entity. For example, if one entity generated 40 percent of a taxpayer's eligible business income, 40 percent of that taxpayer's total section 199A deduction would be attributed to said entity.

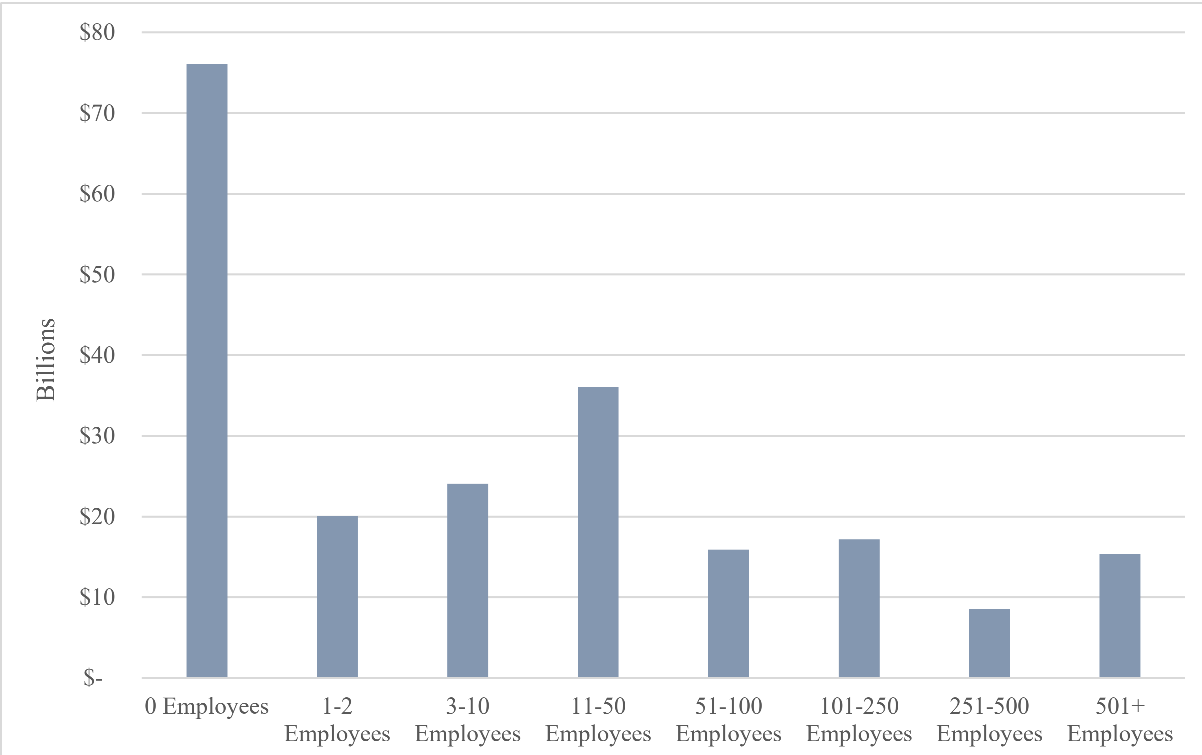
Though the section 199A deduction applies primarily to individual taxpayers with income from a business they own in passthrough entity or sole proprietor form, there are a limited number of entity types which can generate income eligible for this deduction. These entities or forms of holding business interests include S corporations, partnerships (including PTPs), REITs, certain estates and trusts, and sole proprietorships.

Figure 4 provides information on the number of employees at trades or businesses that claim the section 199A deduction. The number of employees is not reported on tax returns. Information on employer size was applied to tax returns if the EINs from the tax return of the employer or another EIN belonging to the parent company could be matched to Form W-2 issued by the employer. If no such match was available, the number of employees was imputed based on wages deducted or reported by the taxpayer.[5]

[4] The population here more fully approximates the population of entities generating section 199A deduction than is suggested by the 94 percent of dollars deducted or, similarly, 94 percent of individuals claiming the deduction would suggest. This is because an entity will only fail to be in the analysis data if all of the owners of an entity generating section 199A deductions are paper filers. As only six percent of individuals receiving section 199A deductions are paper filers, it is likely that approximately all entities are included.

[5] For more information on the process by which the Joint Committee staff links Form W-2 to entity tax returns, see Joint Committee on Taxation, *Linking Entity Tax Returns and Wage Filings* (JCX-5-22), April 5, 2022. This document is available on the Joint Committee on Taxation website at www.jct.gov.

Figure 4.−Section 199A Deductions by Number of Employees in 2022

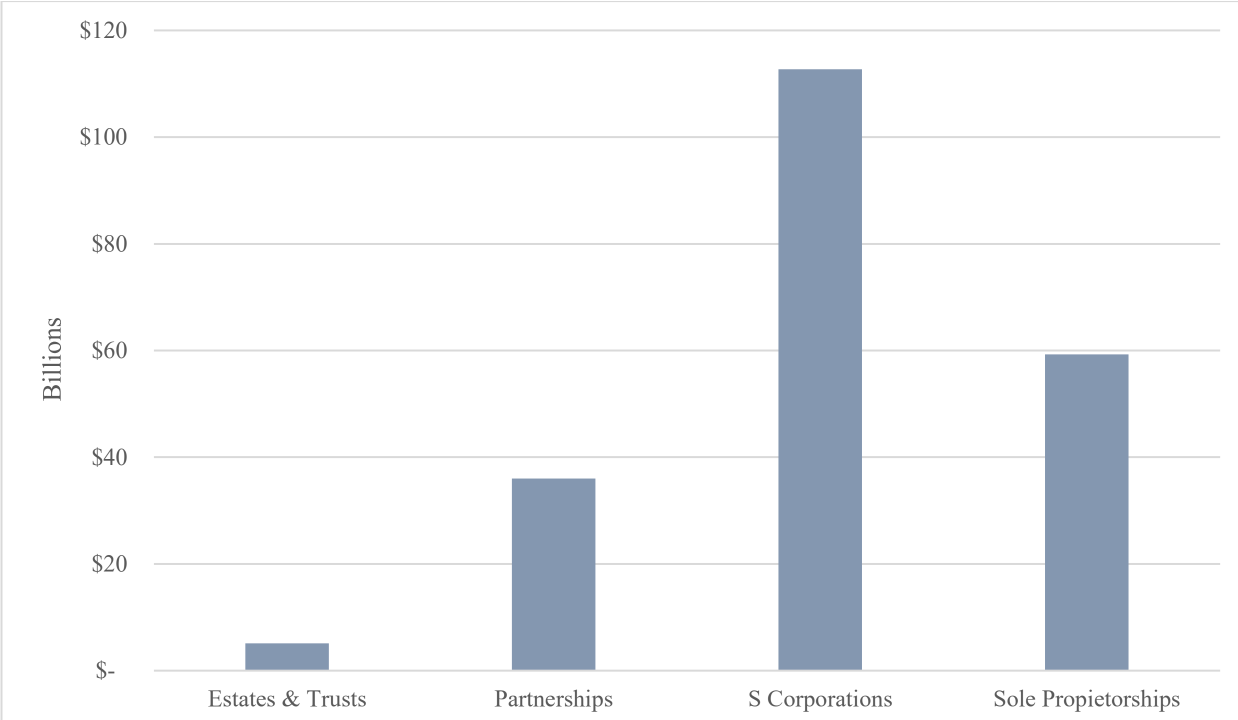


Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions.

Figure 4 shows that 64 percent of section 199A deductions were attributable to owners of businesses with one or more employees. These employing entities were mostly S corporations. The remaining 36 percent of section 199A deductions were generated by entities without any employees. These entities were largely comprised of sole proprietorships and partnerships. Over 95 percent of sole proprietorships generating section 199A deductions for their owner had no employees. Over 80 percent of partnerships generating section 199A deductions for their owners had no employees.

Figure 5 provides information on the entity types generating section 199A deductions. S corporations accounted for approximately 53 percent of QBI deducted in 2021, followed by sole proprietorships with 28 percent, partnerships with 17 percent, and estates and trusts with two percent.

Figure 5.–Section 199A Deduction Stratified by Entity Type in 2022

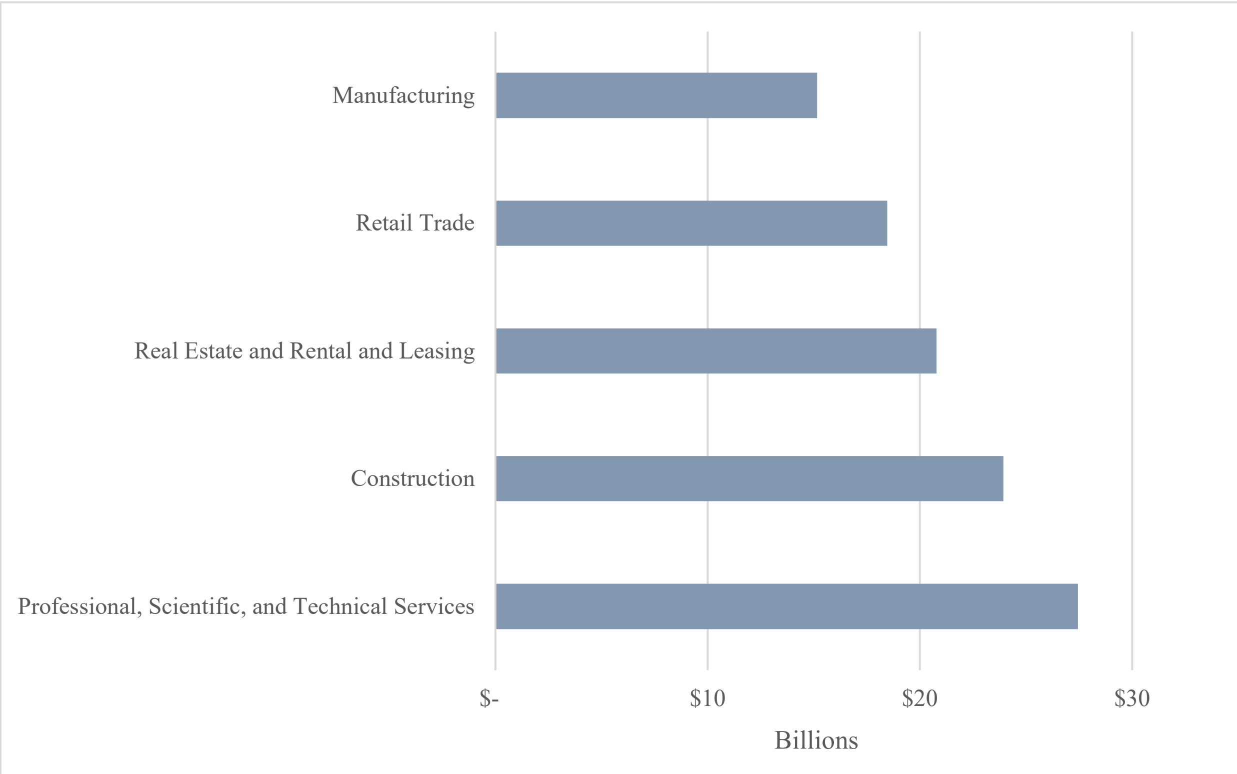


Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions.

Although S corporations accounted for the most deductions in dollar terms, sole proprietorships were the most common entity generating qualified business income. There were 14.8 million distinct sole proprietorships generating income used for section 199A deductions, 3.1 million distinct S corporations, 2.1 million distinct partnerships, and 0.2 million distinct estates and trusts[6].

[6] Sole proprietorships include independent contractors and gig workers.

Figure 6.−Section 199A Deductions by Industry Classification in 2022: Top Five Industries



Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Industry is determined using two-digit North American Industrial Classification System ("NAICS") codes.

Figure 6 displays total section 199A deductions for the top five industries generating the deductions, with industry reported by taxpayers on their entity level tax returns. These industries accounted for 49.6 percent of all deductions under section 199A. The top industry (professional, scientific, and technical services) is the most common industry classification for U.S. entities.[7]

[7] Though "services" is included in the name of this industry classification, the section 199A limitation on SSTBs does not appear to bind with respect to a significant share of this income. An SSTB means any trade or business involving the performance of services in the fields of health, law, 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 one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities. Sec. 199A(d)(2).

APPENDIX

This section contains table versions of the figures in the document.

Table 3.−Share of Tax Units Claiming a Section 199A Deduction by AGI Decile in 2022

AGI Decile	Tax Units Claiming (thousands)	Share of Tax Units
0-10th	30.9	0.2%
10-20th	650.7	4.0%
20-30th	1,572.7	9.7%
30-40th	1,818.3	11.3%
40-50th	1,881.5	11.7%
50-60th	2,142.5	13.3%
60-70th	2,665.9	16.5%
70-80th	3,257.5	20.2%
80-90th	4,322.1	26.8%
90-100th	7,312.2	45.3%
TOTAL	**25,654.3**	**100%**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Totals may not add due to rounding.

Table 4.−Decrease in Tax Liability from Sec. 199A by AGI Decile in 2022

AGI Decile	Tax Units Claiming (thousands)	Decrease in Tax Liability ($millions)
0-10th	30.9	0.7
10-20th	650.7	18.3
20-30th	1,572.7	139.0
30-40th	1,818.3	274.0
40-50th	1,881.5	404.5
50-60th	2,142.5	645.4
60-70th	2,665.9	1,135.4
70-80th	3,257.5	1,673.4
80-90th	4,322.1	4,336.3
90-100th	7,312.2	55,642.1
TOTAL	**25,654.3**	**64,269.1**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Totals may not add due to rounding.

Table 5.−Section 199A Deductions by Number of Employees in 2022

Employees	Section 199A Deductions (Billions of Dollars)	Percentage of Deductions	Firms (Thousands)	Percentage of Firms
0	76.0	35.7%	17,054	84.2%
1-2	20.1	9.4%	1,378	6.8%
3-10	24.0	11.3%	992	4.9%
11-50	36.1	16.9%	619	3.1%
51-100	15.9	7.5%	106	0.5%
101-250	17.2	8.0%	60	0.3%
250-500	8.5	4.0%	18	0.1%
500+	15.3	7.2%	18	0.1%
TOTAL	**213.2**	**100%**	**20,245**	**100%**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Totals may not add due to rounding.

Table 6.−Section 199A Deduction Stratified by Entity Type in 2022

Entity Type	Section 199A Deductions (Billions of Dollars)	Percentage of Deductions	Firms (Thousands)	Percentage of Firms
Estates & Trusts	5.1	2.4%	183	0.9%
Partnerships	36.0	16.9%	2,059	10.2%
S Corporations	112.7	52.9%	3,129	15.5%
Sole Proprietorships	59.3	27.8%	14,839	73.3%
TOTAL	**213.2**	**100%**	**20,245**	**100%**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Totals may not add due to rounding. Joint Committee staff were not able to classify entity type for approximately 33 thousand (0.17%) firms, corresponding to $41 million (0.02%) in section 199A deductions.

Table 7.−Section 199A Deductions by Industry Classification in 2022: Top Five Industries

Entity Type	Section 199A Deductions (Billions of Dollars)	Percentage of Deductions	Firms (Thousands)	Percentage of Firms
Professional, Scientific, and Technical Services	27.4	12.9%	2,135	10.5%
Construction	23.9	11.2%	1,495	7.4%
Real Estate and Rental and Leasing	20.8	9.7%	1,907	9.4%
Retail Trade	18.5	8.7%	786	3.9%
Manufacturing	15.2	7.1%	238	1.2%
TOTAL	**105.8**	**49.6%**	**6,563**	**32.4%**

Notes: Totals calculated by Joint Committee staff using Internal Revenue Service data. Linked entity data does not include REIT/PTP deductions. Totals may not add due to rounding.