

June 16, 2025

Tom Barthold, Ph.D.  
Chief of Staff  
Joint Committee on Taxation  
502 Ford House Office Building  
Washington, DC 20515

Dear Dr. Barthold:

I write to you today to request information on the Qualified Business Income Deduction found in Section 199A of the tax code. This deduction, also known as the “pass-through” or “199A” deduction, is a key component of President Trump and Congressional Republicans’ disastrous tax bill that gives tax cuts to billionaires and wealthy corporations at the expense of working-class Americans, and pays for it with cuts to Medicaid that would cause up to 16 million Americans to lose their health insurance coverage.<sup>1</sup>

Created by President Trump’s 2017 tax bill, the *Tax Cuts and Jobs Act*, Section 199A is a tax deduction that allows owners of certain businesses to deduct up to 20 percent of their business’ qualified income from their taxes. Businesses that are eligible for this deduction are certain sole proprietorships, partnerships, limited liability companies, and S-corporations, as well as some trusts and estates.<sup>2</sup> These are businesses that “pass through” their profits to their owners’ individual income tax returns, instead of being taxed separately as businesses.<sup>3</sup>

Republicans claim that the pass-through deduction helps small businesses that are often structured as partnerships. However, the largest beneficiaries of the pass-through deduction are large firms and wealthy individuals.<sup>4</sup> These wealthy individuals are able to afford and deploy a small army of accountants and lawyers to exploit the 199A deduction. For example, the owners of these businesses will consider themselves employees of their partnerships and, because labor income is not eligible for the 199A deduction, mischaracterize their labor income as business income to take

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<sup>1</sup> Letter from Congressional Budget Office to Ranking Members Wyden, Pallone, and Neal, June 4, 2025, [https://www.cbo.gov/system/files/2025-06/Wyden-Pallone-Neal\\_Letter\\_6-4-25.pdf](https://www.cbo.gov/system/files/2025-06/Wyden-Pallone-Neal_Letter_6-4-25.pdf).

<sup>2</sup> Congressional Research Service, “The Section 199A Deduction: How It Works and Illustrative Examples,” Gary Guenther, January 23, 2024, <https://www.congress.gov/crs-product/R46402>; The Tax Law Center, “Ways and Means proposes making costly 199A ‘pass-through’ deduction more generous and valuable to high-income earners,” Chye-Ching Huang and Miles Johnson, May 12, 2025, <https://taxlawcenter.org/blog/ways-and-means-proposes-making-costly-199a-pass-through-deduction-more-generous-and-valuable-to-high-income-earners>.

<sup>3</sup> *Id.*

<sup>4</sup> Tax Policy Center, “For Once, Economists Agree: Extending Section 199A Is A Bad Idea,” William Gale and Samuel Thorpe, May 20, 2025, <https://taxpolicycenter.org/taxvox/once-economists-agree-extending-section-199a-bad-idea>.

advantage of the deduction.<sup>5</sup> Additionally, partnership owners will often utilize the “crack and pack” method to exploit deductions in 199A, wherein the owner “cracks” the company open, splits it apart into multiple different partnerships, and “packs” employees into different partnerships based on each employee’s function within the broader company.<sup>6</sup> The employees whose income is not eligible for the 199A deduction are siloed into the same sub-partnership that is not tax-advantaged, allowing the other sub-partnerships to fully maximize the 199A deduction. The result of these accounting maneuvers? The wealthiest one percent of Americans have reaped nearly 60 percent of the tax savings created by the 199A deduction since its inception in 2017.<sup>7</sup>

199A is a costly provision that provides little economic benefit: the National Bureau of Economic Research found that there has been “no evidence” that 199A has any “real effects” on both investments in businesses or employment.<sup>8</sup> But Congressional Republicans seem intent on compounding the problem. In their “big, beautiful bill,” Congressional Republicans want to not only permanently extend but *expand* 199A from a 20 percent deduction to a 23 percent deduction.<sup>9</sup> This one provision will cost nearly \$800 billion dollars,<sup>10</sup> with little economic benefit to show for it. Despite claims that 199A would spur small business hiring, 45 percent of 199A deductions were generated by businesses that had no actual employees—evidence of the accounting tricks that these businesses use.<sup>11</sup>

The 199A deduction is one of the many components of President Trump and Congressional Republicans’ “big, beautiful bill” that delivers benefits to the wealthiest companies and individuals and almost nothing to hard-working middle-class families. To better understand the

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<sup>5</sup> National Bureau of Economic Research, “How Do Business Owners Respond To A Tax Cut? Examining The 199a Deduction For Pass-Through Firms,” Lucas Goodman, Katherine Lim, Bruce Sacerdote, and Andrew Whitten, [https://www.nber.org/system/files/working\\_papers/w28680/w28680.pdf](https://www.nber.org/system/files/working_papers/w28680/w28680.pdf) p. 2; Washington Center for Equitable Growth, “2017 tax cut for pass-through business owners exacerbated inequality and failed to deliver economic benefits,” David Mitchell, May 1, 2024, <https://equitablegrowth.org/2017-tax-cut-for-pass-through-business-owners-exacerbated-inequality-and-failed-to-deliver-economic-benefits/>.

<sup>6</sup> Wall Street Journal, “Crack and Pack: How Companies Are Mastering the New Tax Code,” Ruth Simon and Richard Rubin, April 3, 2018, <https://www.wsj.com/articles/crack-and-pack-how-companies-are-mastering-the-new-tax-code-1522768287>.

<sup>7</sup> ProPublica, “Secret IRS Files Reveal How Much the Ultrawealthy Gained by Shaping Trump’s “Big, Beautiful Tax Cut,”” Justin Elliott and Robert Faturechi, August 11, 2021, <https://www.propublica.org/article/secret-irs-files-reveal-how-much-the-ultrawealthy-gained-by-shaping-trumps-big-beautiful-tax-cut>.

<sup>8</sup> National Bureau of Economic Research, “How Do Business Owners Respond To A Tax Cut? Examining The 199a Deduction For Pass-Through Firms,” Lucas Goodman, Katherine Lim, Bruce Sacerdote, and Andrew Whitten, [https://www.nber.org/system/files/working\\_papers/w28680/w28680.pdf](https://www.nber.org/system/files/working_papers/w28680/w28680.pdf), p. 1.

<sup>9</sup> The Tax Law Center at NYU Law, “Ways and Means proposes making costly 199A “pass-through” deduction more generous and valuable to high-income earners,” Chye-Ching Huang and Miles Johnson, May 12, 2025, <https://taxlawcenter.org/blog/ways-and-means-proposes-making-costly-199a-pass-through-deduction-more-generous-and-valuable-to-high-income-earners>.

<sup>10</sup> *Id.*


<sup>11</sup> Washington Center for Equitable Growth, “2017 tax cut for pass-through business owners exacerbated inequality and failed to deliver economic benefits,” David Mitchell, May 1, 2024, <https://equitablegrowth.org/2017-tax-cut-for-pass-through-business-owners-exacerbated-inequality-and-failed-to-deliver-economic-benefits/>.

impacts of 199A on the economy and American families, I ask that you provide the following information:

1. 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.
2. For the last three taxable years, the percentage of the benefit, as well as the size of the benefit in dollars, from the 199A deduction which accrued to individual taxpayers who received adjusted gross income exceeding:
  - a. \$1 million
  - b. \$5 million
  - c. \$10 million
  - d. \$50 million
  - e. \$100 million

Thank you for your attention to this important matter.

Sincerely,

  
Elizabeth Warren  
United States Senator