

**Congress of the United States**  
JOINT COMMITTEE ON TAXATION  
Washington, DC 20515-6453

June 2, 2025

**MEMORANDUM**

**TO:** Sarah Schaefer and Kim Arndt

**FROM:** Thomas A. Barthold *TAB*

**SUBJECT:** Distributional Analyses of Extension and Modification of Section 199A

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This memorandum is in response to your request of May 23, 2025, for a distributional analyses of the extension and modification of Internal Revenue Code (“Code”) section 199A as contained in H.R. 1 that passed the U.S. House of Representatives on May 22, 2025 (the “House bill”).

Under present law Code section 199A provides for a deduction of up to 20 percent of qualified business income until 2025, after which it expires. The recently passed House bill makes five modifications to this Code section. First, the Code section is permanently extended. Second, the present law income phaseout is modified. The new phaseout reduces the deduction generated under this Code section by \$0.75 for every \$1 of modified taxable income exceeding the modified taxable income threshold. Third, the deduction rate is increased to 23 percent. Fourth, the indexing for the income thresholds in the Code section is modified and is slightly lowered as a result. Fifth, income from business development corporations is excluded from the specified service trade or business designation, causing all of the income from these entities to be potentially qualified income (still subject to the wage and capital limitations).

Table 1 below displays the estimated effect on Federal fiscal year budget receipts of each of the proposals described above. Tables 2 and 3 display the estimated distribution of these revenue effects for calendar years 2027, 2029, 2031, and 2033. The revenue and distributional effects are estimated in the context of the House bill, including relevant stacking order.

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Table 1: Fiscal Year Revenue Effects of Code Section 199A Modifications in House Bill

<u>Item</u>	<b>Fiscal Years</b> <b>[Millions of Dollars]</b>											
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2025-29</u>	<u>2025-34</u>
Extension of Code section 199A.....	-6,970	-42,161	-71,148	-77,412	-78,765	-80,551	-82,623	-85,066	-87,752	-91,114	-276,456	-703,562
Modification to income phaseout.....	---	4	10	21	33	46	57	63	67	69	67	369
Increasing deduction rate to 23 percent.....	---	-6,556	-11,174	-11,424	-11,637	-11,908	-12,219	-12,583	-12,983	-13,483	-40,791	-103,966
Modifying indexing.....	---	-43	-72	-72	-73	-78	-82	-84	-88	-87	-260	-678
Business development corporations are no longer specialized service trade or businesses	---	-505	-898	-995	-1,100	-1,214	-1,327	-1,441	-1,562	-1,692	-3,497	-10,734
<b>Total.....</b>	<b>-6,970</b>	<b>-49,261</b>	<b>-83,282</b>	<b>-89,882</b>	<b>-91,542</b>	<b>-93,705</b>	<b>-96,193</b>	<b>-99,109</b>	<b>-102,319</b>	<b>-106,307</b>	<b>-320,937</b>	<b>-818,570</b>

**NOTE:** Details do not add to totals due to rounding.

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Table 2: Calendar Year Distribution of Revenue Effects Associated with Code Section 199A Modifications in House Bill, by Percentile of Expanded Economic Income

	2027		2029		2031		2033	
Expanded Economic Income	Returns	Revenue	Returns	Revenue	Returns	Revenue	Returns	Revenue
<20%	0.5	-45.6	1.1	-144.7	1.2	-183.9	1.4	-242.9
20-40%	2.7	-906.1	2.9	-1,114.5	2.9	-1,225.5	3.0	-1,398.5
40-60%	2.9	-1,736.6	3.0	-1,921.2	3.1	-2,134.5	3.1	-2,331.9
60-80%	5.1	-4,593.9	5.3	-5,187.1	5.4	-5,599.9	5.5	-6,047.6
80-90%	4.1	-6,506.7	4.2	-6,922.6	4.4	-7,622.4	4.4	-8,155.6
90-95%	3.0	-7,971.9	3.1	-8,256.4	3.1	-8,567.3	3.1	-9,113.3
95-99%	3.4	-18,333.8	3.4	-18,496.0	3.4	-19,460.2	3.4	-20,754.2
99-99.9%	1.1	-24,031.8	1.1	-24,422.9	1.1	-25,842.7	1.1	-27,474.5
>99.9%	0.1	-25,001.2	0.1	-25,783.8	0.1	-26,498.6	0.1	-27,984.4
Total	23.0	-89,127.7	24.1	-92,249.1	24.6	-97,135.1	25.2	-103,502.7

**NOTE:** [1] Expanded economic income is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

[2] Includes non-filers but excludes dependent filers and returns with negative income.

[3] Less than 50 thousand.

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**Table 3: Calendar Year Distribution of Revenue Effects Associated with Code Section 199A Modifications in House Bill, by Level of Expanded Economic Income**

Expanded Economic Income	2027		2029		2031		2033	
	Returns	Revenue	Returns	Revenue	Returns	Revenue	Returns	Revenue
\$0 - \$15,000	0.0	0.0	0.0	-0.1	0.0	-0.2	0.0	-0.4
\$15,000 - \$30,000	0.9	-118.7	1.2	-174.7	1.2	-193.2	1.3	-221.1
\$30,000 - \$40,000	0.7	-175.4	0.9	-244.8	0.9	-268.7	1.0	-314.9
\$40,000 - \$50,000	0.8	-257.8	0.9	-336.4	1.0	-355.7	1.0	-397.4
\$50,000 - \$60,000	0.9	-325.5	1.0	-390.7	1.0	-446.6	1.0	-487.5
\$60,000 - \$80,000	1.7	-830.1	1.8	-1,011.7	1.9	-1,101.3	1.9	-1,184.7
\$80,000 - \$100,000	1.7	-1,078.9	1.7	-1,165.6	1.8	-1,271.1	1.8	-1,379.2
\$100,000 - \$150,000	3.9	-2,861.8	4.0	-3,261.3	4.2	-3,582.4	4.2	-3,873.0
\$150,000 - \$200,000	3.3	-4,074.4	3.4	-4,529.4	3.5	-4,930.1	3.6	-5,334.8
\$200,000 - \$500,000	6.9	-21,039.8	7.0	-22,071.0	7.1	-23,724.0	7.2	-25,480.7
\$500,000 - \$1,000,000	1.5	-14,079.4	1.4	-14,290.6	1.4	-14,858.5	1.4	-15,871.9
\$1,000,000 and above	0.8	-44,285.8	0.7	-44,772.8	0.7	-46,403.4	0.7	-48,957.3
<b>TOTAL</b>	<b>23.0</b>	<b>-89,127.5</b>	<b>24.1</b>	<b>-92,249.2</b>	<b>24.6</b>	<b>-97,135.3</b>	<b>25.2</b>	<b>-103,502.7</b>

**NOTE:** [1] Expanded economic income is adjusted gross income (AGI) plus: (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer share of FICA tax, (4) workers' compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2024 levels.

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