

Small Business Tax Fairness Act

Republican's 2017 tax law included a 20 percent deduction for certain income from pass-through businesses, which significantly lowered the marginal income tax rate on qualifying pass-through business income. A high-earning individual taxed at 37 percent saw a 7.4 percent rate slash on their pass-through business income thanks to this deduction. The deduction was inaccurately sold as "tax relief for Main Street," when in reality, [61 percent](#) of the benefit goes to the top 1 percent. Making matters worse, arbitrary industry carve outs and limitations excluded some small business owners and left the IRS with a tangled mess of calculations.

Chair Wyden's proposal would ensure this tax benefit helps Main Street small business owners, not wealthy real estate investors. The changes would expand middle-income business owners' access to the pass-through deduction and remove complex calculations and limitations, while ensuring that the deduction goes to true small business owners—not millionaires.

The changes would expand eligibility for middle-income services business owners by removing arbitrary restrictions on which industries qualify and which don't. The current limitations cause tremendous confusion for taxpayers trying to figure out if they are a "specified service trade or business" without an army of accountants and lawyers. Chair Wyden's bill would eliminate this red tape.

The proposal would also simplify the calculations of Main Street businesses to determine their deduction. The deduction's multiple caps and thresholds make calculating the deduction and determining eligibility unnecessarily complicated. Wyden's bill would establish one threshold for determining whether the taxpayer gets the deduction and one simple definition of qualified business income that applies to all taxpayers. Small business owners would no longer have to calculate their deduction using formulas and limitations based on W-2 wages paid and qualified investments.

While large businesses and wealthy pass-through owners can afford armies of lawyers and accountants to do these calculations and structure into the full deduction, small business owners do not have the same resources. A simplified pass-through deduction would ensure entrepreneurs understand how this tax provision helps their business, employees, and their bottom lines.

This deduction is intended to support small- and middle-income businesses across the country. While it's true that most small businesses are organized as pass-throughs, many pass-throughs are not small businesses. In fact, pass-through businesses account for [58 percent](#) of all businesses with *more than \$50 million* in receipts. While small business owners with incomes under \$200,000 are [80 percent](#) of taxpayers claiming the deduction in number, [52.4 percent](#) of the federal government's expenditure for the deduction pads the pockets of millionaires and billionaires.

To stop millionaire pass-through owners from taking a benefit meant for true small business owners, the proposal would phase out the deduction for individuals earning more than \$400,000. These changes ensure that Congress is working for Main Street businesses with the pass-through deduction.