

How did TCJA impact pass-through entities?



SUMMARY POINTS

- The Tax Cuts and Jobs Act of 2017 (TCJA) introduced the Qualified Business Income (QBI) deduction, which enables owners of pass-through entities such as sole proprietorships and LLCs to deduct up to 20% of their business income from their taxable income.
- In 2022, 15.9% of tax returns claimed the QBI deduction, collectively lowering their taxable incomes by \$216.1 billion.
- High income taxpayers are most likely to own pass-through entities and claim the QBI deduction. They also claim the largest average deduction. For example, 73.8% of taxpayers who earned at least \$1 million in 2022 claimed the QBI deduction to lower their taxable income by an average of \$159,978.
- QBI deductions varied across states, likely influenced by average income and rates of ownership of pass-through entities. West Virginia residents claimed the deduction at the lowest rate (10.1% of tax returns in 2022), and Colorado residents claimed it at the highest rate (20.2%).

INTRODUCTION

The Tax Cuts and Jobs Act of 2017 (TCJA) lowered the top US corporate tax rate from 35% to 21%. This, however, did not impact the nation's numerous pass-through entities. So, the act introduced a deduction to reduce their taxes as well. Unlike C corporations that pay corporate income taxes, profits earned by S corporations, sole-proprietorships, LLCs, partnerships, and others are “passed through” to their owners who are required to pay individual income taxes on those earnings. TCJA introduced the Qualified Business Income (QBI) deduction to lower the taxes pass-through entities pay, allowing owners to deduct certain business income from their taxable income.

POLICY CHANGE

Under TCJA, owners of pass-through entities can deduct up to 20% of qualified business income from their taxable income. Single filers making less than \$197,300 and joint filers making less than \$394,600 in 2025 can deduct the full 20% from their taxable income.

Incomes exceeding these thresholds trigger a formula that reduces the deduction based on either:

- Half of the owner's share of wages paid to workers, or
- A quarter of the owner's share of wages plus 2.5% of their portion of the original value of the firm's property.

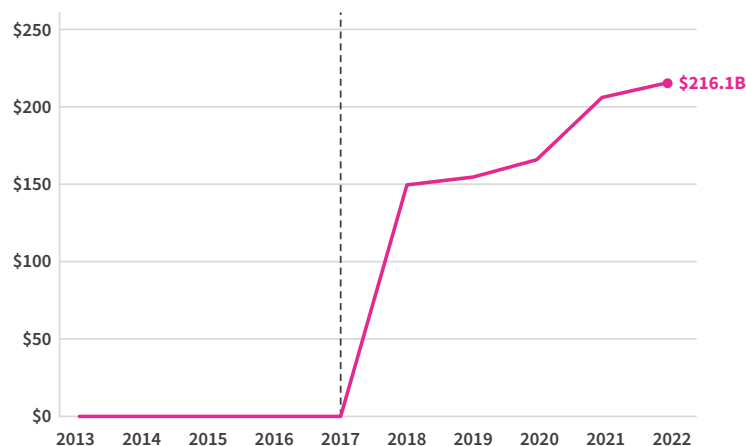
The deduction also varies based on the company type, the investment property it owns, and the wages it pays employees. Of note, the QBI deduction is not an itemized deduction and is instead available to all eligible taxpayers whether they choose to itemize or claim the standard deduction.

Like many other individual income tax provisions enacted by TCJA, the QBI deduction is scheduled to sunset at the end of 2025.

THE INTRODUCTION AND GROWTH OF THE QBI DEDUCTION

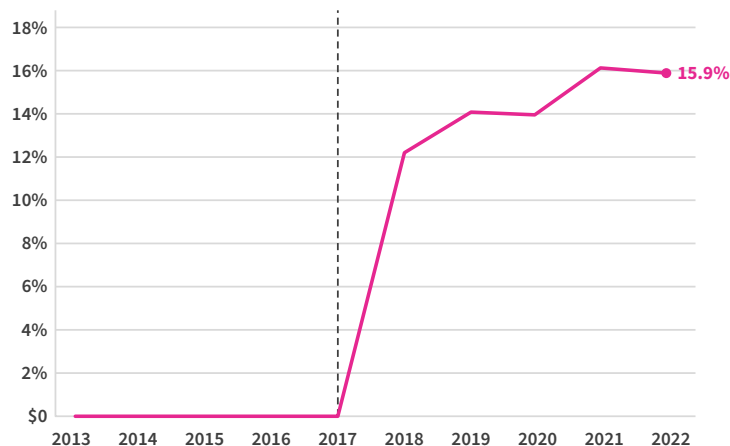
Today, pass-through business owners use the QBI deduction to collectively lower their taxable income by more than \$200 billion per year.

Chart: Aggregate amount of QBI deduction claimed, 2013–2022 (\$ Billions)



Source: [Internal Revenue Service, Statistics of Income](#)

Percent of tax returns claiming the QBI deduction, 2013–2022

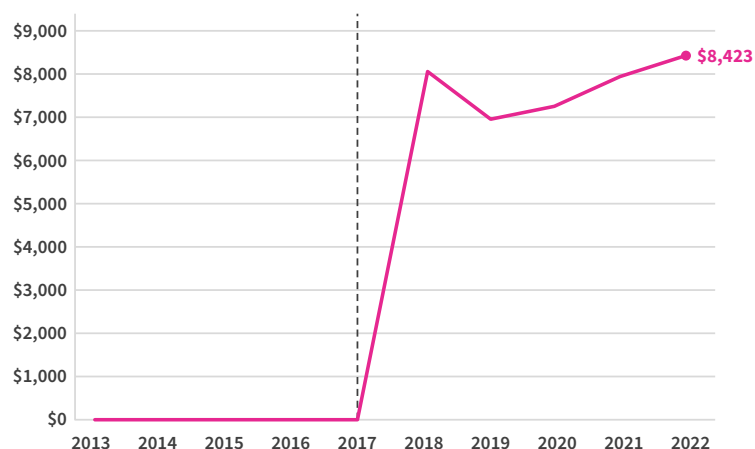


Source: [Internal Revenue Service, Statistics of Income](#)

More than one in ten tax returns have claimed the QBI deduction annually since its introduction in 2018. That year, 12.1% of tax filers claimed a total of \$150.0 billion in the deduction. This increased to 15.9% of tax returns claiming QBI in 2022, with the aggregate amount claimed increasing to \$216.1 billion, equivalent to a 1.5% reduction in aggregate taxable income in 2022.

Meanwhile, the average size of the QBI deduction claimed by owners of pass-through entities has fluctuated somewhat since 2018.

Average QBI deduction, 2013–2022



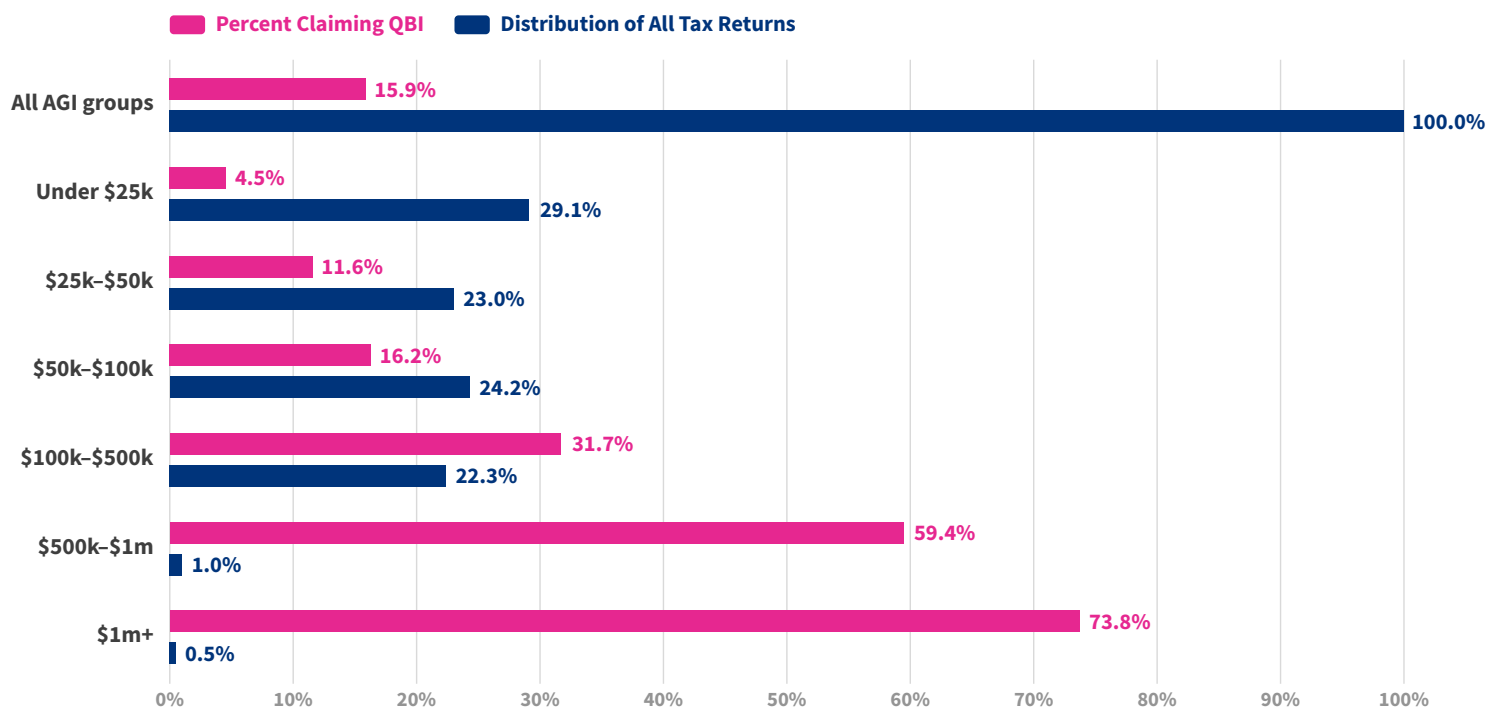
Source: [Internal Revenue Service, Statistics of Income](#)

Owners of pass-through entities claimed an average QBI deduction of \$8,034 in 2018. That fell to \$6,980 in 2019 and rebounded to \$8,423 in 2022.

DIFFERENCES BY INCOME

Overall, high-income tax filers are more likely to have reduced their taxable income with the QBI deduction than low- and middle-income tax filers. Note that the below chart categorizes returns in adjusted gross income (AGI) groups — the income measure IRS uses to determine taxes owed each year.

Percent of returns claiming QBI by AGI, 2022



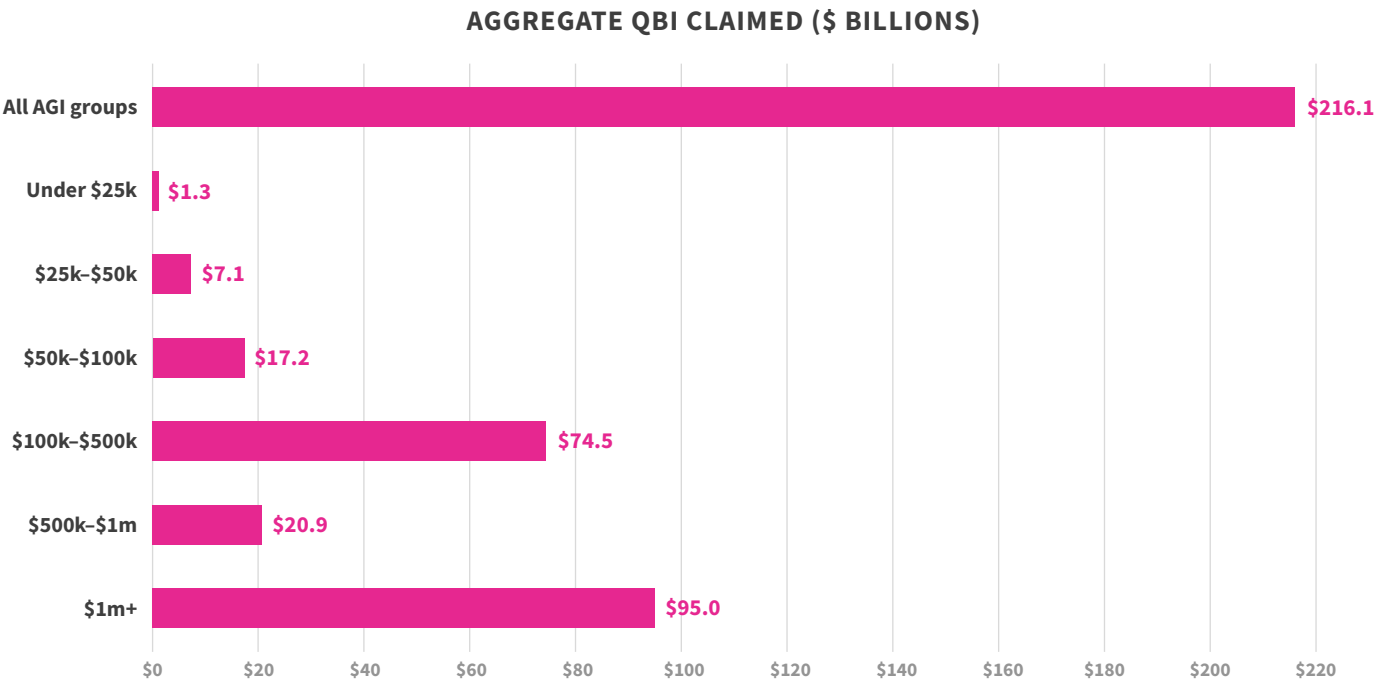
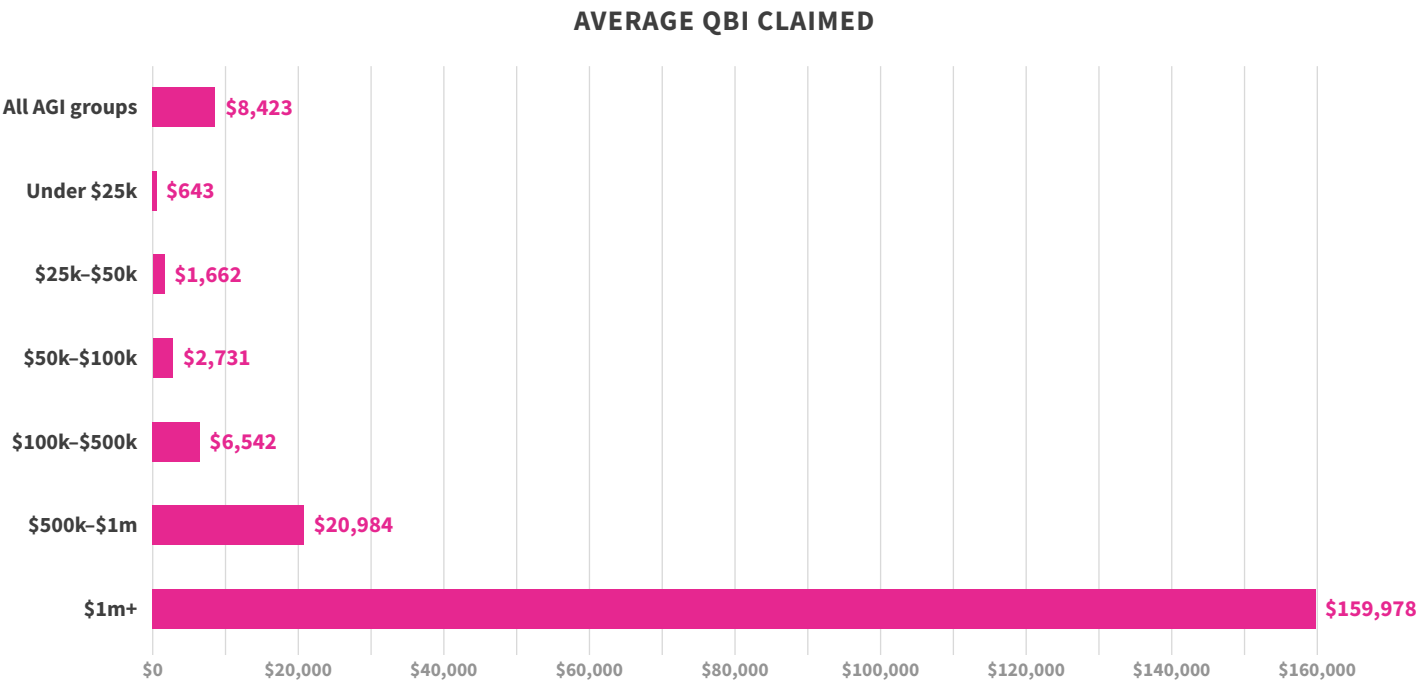
Source: [Internal Revenue Service, Statistics of Income](#)

Overall, 1.5% of tax returns with the highest AGI claimed the QBI deduction the most frequently. In 2022, 59.4% of those who made between \$500,000 and \$1 million claimed the QBI deduction. Likewise, 73.8% of those making at least \$1 million claimed the QBI deduction. Those groups accounted for 1% and 0.5% of all tax returns in 2022, respectively.

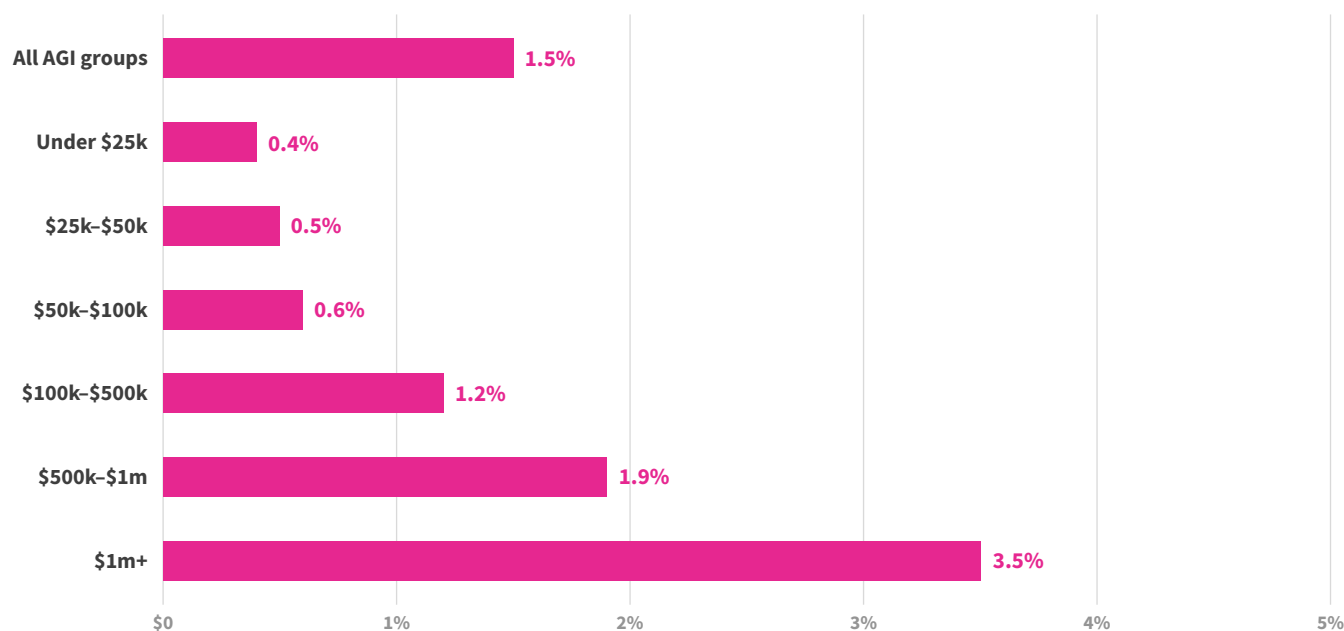
The lower income groups that represent the majority of tax returns claimed the QBI deduction at lower rates. For example, 11.6% of tax returns earning between \$25,000 and \$50,000, which accounted for 23.0% of all tax returns, claimed the QBI deduction in 2022.

Among those claiming the QBI deduction, the highest AGI groups also claimed it to reduce their taxable income by the largest amount. In particular, the average QBI deduction claimed by taxpayers earning at least \$1 million was more than 20 times larger than the average claimed by those earning under \$500,000.

Average and aggregate QBI deductions by AGI, 2022



PERCENT REDUCTION IN AGGREGATE TAXABLE INCOME



Source: [Internal Revenue Service, Statistics of Income](#)

In 2022, those earning at least \$1 million who claimed the QBI deduction reduced their taxable income by an average of \$159,978. In total, the QBI deduction reduced aggregate taxable income for those earning more than \$1 million in 2022 by \$95.0 billion or 3.5%.

Lower- and middle-income groups also used the QBI deduction to lower their taxable incomes, but by much smaller amounts. The average QBI deduction claimed by those earning between \$100,000 and \$500,000 was \$6,542 and totaled \$74.5 billion in 2022. This accounted for a 1.2% reduction in aggregate taxable income for that AGI group. Meanwhile, those earning between \$50,000 and \$100,000 claimed an average QBI deduction of \$2,731, and it resulted in a 0.6% reduction in aggregate taxable income.

DIFFERENCES BY STATE

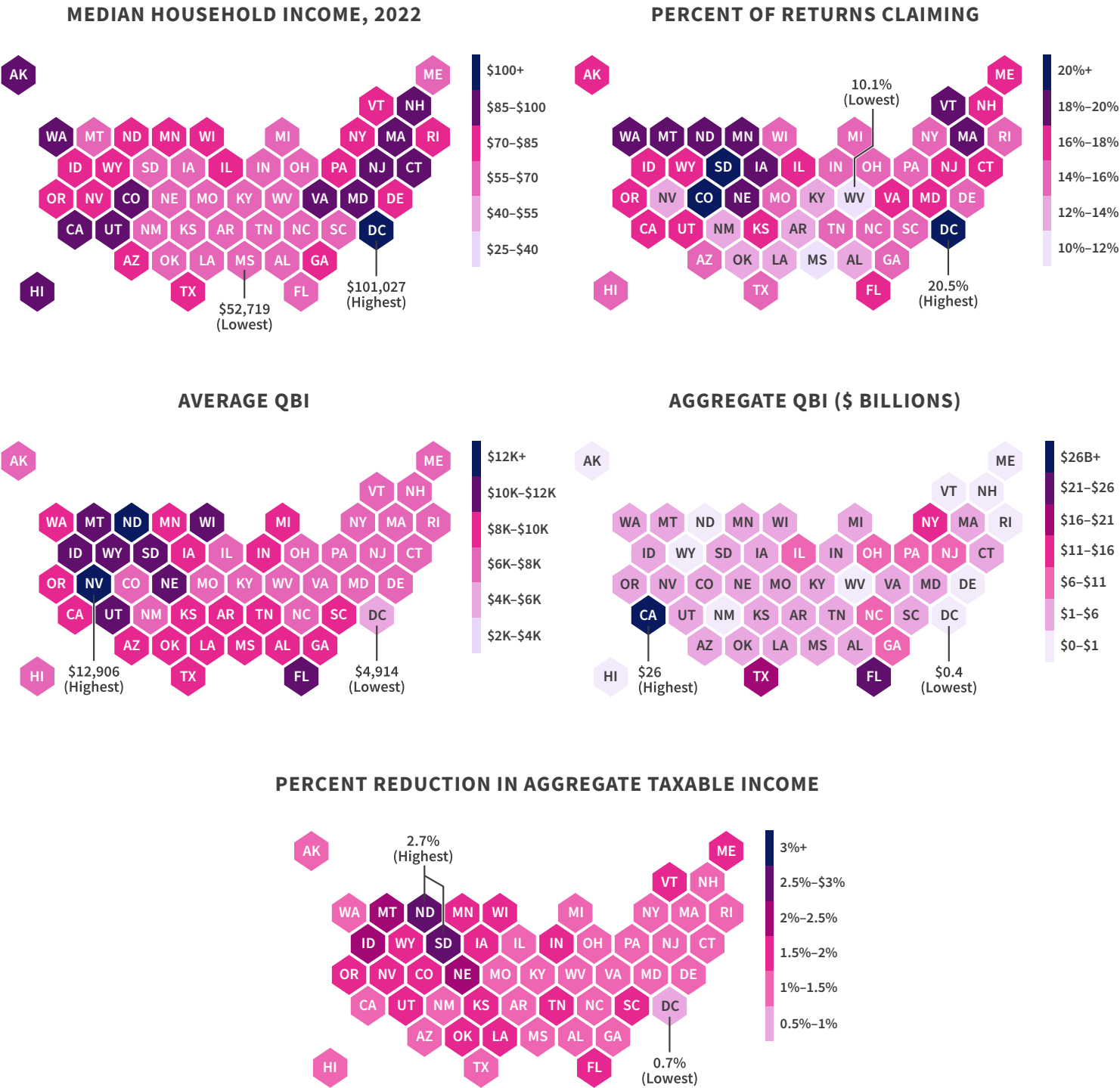
Generally, the rates at which taxpayers claimed the QBI deduction varied somewhat by state, with West Virginia residents claiming the deduction at the lowest rate (10.1% of tax returns in 2022), and Colorado residents claiming it at the highest rate (20.2% of tax returns in 2022).

Meanwhile, in 2022, the average QBI deductions claimed across states ranged from \$6,668 in Delaware to \$12,906 in Nevada.

Overall, the QBI deduction delivered the Dakotas the largest percent reduction in aggregate taxable income. The deduction lowered aggregate taxable income in both North and South Dakota by 2.7% in 2022. Meanwhile, at 1.0%, West Virginia experienced the smallest percent reduction in aggregate taxable income due to the QBI deduction. Notably, while the residents of the District of Columbia claimed the QBI deduction at a higher rate than any state (20.5%), the deduction reduced their aggregate taxable income by less than each of the 50 states (0.7%).

The differences across states likely reflect a mixture of factors, including median income levels and differing rates of individuals owning pass-through entities.

QBI claiming by state, 2022



Source: [Internal Revenue Service, Statistics of Income](#); [Census Bureau, American Community Survey](#)

TAX DATA CHALLENGES

All of the data discussed in this explainer are compiled and published by the IRS's Statistics of Income (SOI). While these data provide valuable insight, statistical systems that use tax data face several challenges. As such, policymakers and analysts have limited information to evaluate the effect of previous tax policy and the potential impact of new proposals. Some of the limitations in tax data include:

Delays

There are major delays in tax data.

- Tabulated topline data typically lags two to three years, with the most recent individual and corporate income tax data being from 2022 and 2021, respectively.
- The latest public-use file, which provides detailed microdata on individual income tax returns, is from 2015, and there is no public-use file on corporate income tax returns. This means that economists are still unable to perform deeper analyses of the impact of TCJA (enacted in 2017) on investment, work, and earnings. Moreover, they are also forced to rely on decade-old data when attempting to forecast the potential impact of new policy changes into the 2030s.

Unpublished data

Despite gathering significant amounts of information from businesses, workers, families, and educational institutions, among others, the IRS has been unable to publish data on several key topics Americans care about, such as health insurance and student debt.

Website

Tax data is not easily accessible on the IRS's website. Users must have a strong working knowledge of existing tables and the US tax system to answer simple questions.

Informational technology

The IRS runs on outdated hardware, meaning that SOI is unable to leverage modern tools, such as AI and machine reading, to efficiently prepare data for the public.

Talent

SOI relies on a team of statisticians, data scientists, and other specialized professionals to produce data for the public. However, it has long faced a resource-constrained environment with limited staffing. This impacts SOI's capacity to release data, contributing to delays and unpublished data.

APPENDIX: DETAILED TABLES**Percent claiming, average deduction, and aggregate QBI deductions claimed, 2013–2022**

Year	Percent Claiming	Average QBI Deduction	Total QBI Claimed (\$ billions)
2013	0.0%	\$0	\$0.0
2014	0.0%	\$0	\$0.0
2015	0.0%	\$0	\$0.0
2016	0.0%	\$0	\$0.0
2017	0.0%	\$0	\$0.0
2018	12.1%	\$8,034	\$150.0
2019	14.1%	\$6,980	\$155.2
2020	13.9%	\$7,277	\$166.1
2021	16.1%	\$7,938	\$205.8
2022	15.9%	\$8,423	\$216.1

Source: [Internal Revenue Service, Statistics of Income](#)

Percent of returns claiming QBI by AGI, 2022

AGI Group	Percent Claiming QBI	Distribution of All Tax Returns
All AGI groups	15.9%	100.0%
Under \$25k	4.5%	29.1%
\$25k–\$50k	11.6%	23.0%
\$50k–\$100k	16.2%	24.2%
\$100k–\$500k	31.7%	22.3%
\$500k–\$1m	59.4%	1.0%
\$1m+	73.8%	0.5%

Source: [Internal Revenue Service, Statistics of Income](#)

APPENDIX: DETAILED TABLES

Average and aggregate QBI deductions by AGI, 2022

AGI Group	Average QBI Claimed	Aggregate QBI Claimed (\$ Billions)	Percent Reduction in Aggregate Taxable Income
All AGI groups	\$8,423	\$216.1	1.5%
Under \$25k	\$643	\$1.3	0.4%
\$25k–\$50k	\$1,662	\$7.1	0.5%
\$50k–\$100k	\$2,731	\$17.2	0.6%
\$100k–\$500k	\$6,542	\$74.5	1.2%
\$500k–\$1m	\$20,984	\$20.9	1.9%
\$1m+	\$159,978	\$95.0	3.5%

Source: [Internal Revenue Service, Statistics of Income](#)

QBI claiming by state, 2022

State	Median Household Income, 2022	Percent of Returns Claiming	Average QBI	Aggregate QBI (\$ billions)	Percent Reduction in Taxable Income
AL	\$59,674	12.5%	\$8,985	\$2.4	1.5%
AK	\$88,121	16.8%	\$7,969	\$0.5	1.5%
AZ	\$74,568	15.3%	\$8,322	\$4.3	1.5%
AR	\$55,432	13.4%	\$8,317	\$1.4	1.5%
CA	\$91,551	16.9%	\$8,337	\$26.0	1.3%
CO	\$89,302	20.2%	\$7,740	\$4.6	1.6%
CT	\$88,429	17.7%	\$7,578	\$2.4	1.1%
DE	\$82,174	15.0%	\$6,668	\$0.5	1.2%
DC	\$101,027	20.5%	\$4,914	\$0.4	0.7%
FL	\$69,303	17.1%	\$11,231	\$21.4	1.9%
GA	\$72,837	14.9%	\$8,247	\$6.1	1.5%
HI	\$92,458	15.7%	\$6,925	\$0.7	1.3%
ID	\$72,785	17.4%	\$10,502	\$1.6	2.2%
IL	\$76,708	16.8%	\$7,650	\$7.8	1.3%
IN	\$66,785	14.0%	\$8,962	\$4.1	1.7%
IA	\$69,588	18.1%	\$8,850	\$2.4	1.9%

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QBI claiming by state, 2022

State	Median Household Income, 2022	Percent of Returns Claiming	Average QBI	Aggregate QBI (\$ billions)	Percent Reduction in Taxable Income
KS	\$68,925	17.2%	\$8,529	\$2.0	1.8%
KY	\$59,341	13.0%	\$7,875	\$2.0	1.5%
LA	\$55,416	13.2%	\$9,286	\$2.4	1.7%
ME	\$69,543	16.2%	\$7,512	\$0.9	1.6%
MD	\$94,991	16.1%	\$6,654	\$3.3	1.1%
MA	\$94,488	19.0%	\$7,605	\$5.1	1.2%
MI	\$66,986	14.4%	\$8,291	\$5.8	1.5%
MN	\$82,338	18.0%	\$8,909	\$4.6	1.7%
MS	\$52,719	11.2%	\$8,673	\$1.2	1.5%
MO	\$64,811	15.2%	\$7,750	\$3.4	1.5%
MT	\$67,631	19.2%	\$10,072	\$1.1	2.3%
NE	\$69,597	18.1%	\$10,607	\$1.8	2.3%
NV	\$72,333	13.7%	\$12,906	\$2.7	1.9%
NH	\$89,992	17.7%	\$7,339	\$0.9	1.2%
NJ	\$96,346	17.1%	\$7,674	\$6.1	1.2%
NM	\$59,726	12.0%	\$6,699	\$0.8	1.2%
NY	\$79,557	15.8%	\$7,404	\$11.4	1.1%
NC	\$67,481	16.0%	\$7,761	\$6.1	1.5%
ND	\$71,970	19.5%	\$12,791	\$0.9	2.7%
OH	\$65,720	14.8%	\$7,749	\$6.5	1.5%
OK	\$59,673	13.6%	\$8,640	\$2.0	1.6%
OR	\$75,657	17.3%	\$8,156	\$2.9	1.6%
PA	\$71,798	15.2%	\$7,957	\$7.7	1.4%
RI	\$81,854	15.5%	\$6,875	\$0.6	1.3%
SC	\$64,115	14.5%	\$8,333	\$3.0	1.6%
SD	\$69,728	20.1%	\$11,878	\$1.1	2.7%
TN	\$65,254	14.9%	\$8,820	\$4.3	1.6%

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QBI claiming by state, 2022

State	Median Household Income, 2022	Percent of Returns Claiming	Average QBI	Aggregate QBI (\$ billions)	Percent Reduction in Taxable Income
TX	\$72,284	14.8%	\$9,165	\$18.6	1.5%
UT	\$89,168	16.4%	\$10,622	\$2.6	1.9%
VT	\$73,991	18.8%	\$7,137	\$0.5	1.7%
VA	\$85,873	16.9%	\$7,017	\$4.9	1.2%
WA	\$91,306	18.0%	\$8,160	\$5.5	1.3%
WV	\$54,329	10.1%	\$6,322	\$0.5	1.0%
WI	\$70,996	15.7%	\$10,219	\$4.7	1.9%
WY	\$70,042	17.6%	\$10,784	\$0.5	1.7%

Source: [Internal Revenue Service, Statistics of Income; Census Bureau, American Community Survey](#)