

Federal Business Tax Rates

Corporate Income Tax Rates

For Taxable Corporate Income					
from	to	The Tax Is	Plus	Of the Amount Over	
\$ 0	\$ Infinity	\$ 0	21%	\$ 0	

Pass-Through Business Taxation

Owners, partners and shareholders of S-corporations, LLCs and limited partnerships, known as **"pass-through" businesses**, pay tax on business income on their individual tax returns, but may be entitled to a deduction equal to 20% of their allocable share of business income. Generally, however, the deduction cannot exceed 50% of the owner's share of the W-2 wages paid by the business. The W-2 limitation does not apply if the owner earns less than \$157,500 if single or \$315,000 if married and filing jointly.

For Example: A 50% owner of a partnership receives partnership income of \$600,000 and his share of the W-2 wages paid by the partnership is \$200,000. This partner is eligible for a deduction equal to the **lesser** of 20% of his \$600,000 partnership income (\$300,000) **or** 50% of his \$200,000 W-2 wages (\$100,000), making his deduction \$100,000.

There is an **alternative** available to owners of pass-through businesses that do not pay much in the way of W-2 wages, such as owners of rental properties. Rather than the 50% of W-2 income limitation, the limitation can be calculated as 25% of the owner's share of the W-2 wages paid by the business **PLUS** 2.5% of the unadjusted basis (original purchase price) of the property used in the production of income.

For Example: A 50% owner of an LLC that owns a commercial building purchased for \$20 million receives \$2 million in rental income, but no W-2 wages, meaning that no deduction would be available due to the wage limitation. Through the alternative, however, she is entitled to a deduction equal to the **lesser** of 20% of her \$2 million in qualified income (\$400,000) **or** 25% of her W-2 wages (\$0) **plus** 2.5% of her 50% share of the original cost of the business property (2.5% x \$10 million = \$250,000), giving her a \$250,000 deduction.

Certain **"personal service businesses,"** such as doctors, lawyers and accountants, are not eligible for the deduction unless their taxable income is less than \$157,500 if single or \$315,000 if married and filing jointly. Engineers and architects are not included in the definition of a personal service business.