Introduction to the 2026-2027 Edition

With the recent passage of the One Big Beautiful Bill Act ("OBBBA"), Congress has made the pass-through business deduction provision found in Section 199A permanent.

This is a complicated provision with multiple requirements, exemptions, and many yet-to-be interpreted provisions. The aim of the statute is to provide a maximum effective tax rate of 29.6 percent on an individual's domestic "qualified business income" (as defined) from a partnership, an S corporation, or a sole proprietorship. The reduced maximum rate is produced by a 20 percent deduction, then 80 percent ([100% - 20%] x 37 percent maximum individual marginal rate yields 29.6%). The analysis of choice of entity now must compare the impacts of this tax regimen versus the straightforward 21 percent flat corporate tax rate. The personal alternative minimum tax remains, albeit modified and its impacts reduced. This provision, originally introduced by the the Tax Cuts and Jobs Act of 2017 ("2017 TCJA") will, under the OBBBA, now also i.) limit the phase-in range for certain businesses by increasing the amount from $50,000 to $75,000 for non-joint tax returns and from $100,000 to $175,000 for joint returns; and ii.) contain an inflation-adjusted minimum deduction of $400 for taxpayers whose aggregate qualified business income for all active qualified trades or businesses is at least $1,000. The new rules under the provision is expected to go into effect from tax year 2026 forward.

Code Section 168, amended probably more than any other over the past several years, is modified yet again by the OBBBA to restore the one hundred percent bonus appreciation for qualified property placed in service after January 19, 2025. New Section 168(n), applicable to qualified production property the construction of which begins after January 19, 2025 and before January 1, 2029, adds another 100% depreciation allowance for such properties as well.

The impacts of the 2017 TCJA and now the OBBBA are many, varied, and, not reviewed and vetted as thoroughly as many tax professionals would have preferred. The IRS has issued both proposed and final Regulations, as well as Revenue Rulings and notices, addressing some of the many complexities of the TCJA, especially providing guidance on Section 199A. But this is only the beginning of what promises to constitute a very long process of interpretation and refinement. "The S Corporation Handbook" attempts to explain, clarify, and provide insight into the various provisions affecting these pass-through entities.