

GOVERNMENT RELATIONS POLICY POSITION PAPER

Section 199A

The Issue

Under current law, for taxable years 2018 through 2025, Section 199A of the Tax Cuts and Jobs Act (TCJA) provides a deduction of up to 20% of qualified domestic business income for pass through entities such as sole-proprietorships, partnerships, S-corps, trusts or estates.

Unfortunately, when the Department of Treasury issued the final regulations, financial advisors were deemed ineligible for the deduction if their overall taxable income exceeds a certain limit. For tax year 2021, the threshold amount was \$329,800 for married filing joint returns, \$164,925 for married filing separate returns, and \$164,900 for all other returns. For tax year 2022, the threshold and phase-in range is \$340,100 to \$440,100 for married couples filing jointly and \$170,050 to \$220,050 for all other taxpayers.

Financial advisors above these thresholds are not allowed to benefit from the 199A 20% pass-through deduction at all. However, insurance agents qualify for this 20% pass-through deduction regardless of income.

LPL Position

LPL believes that Congress should not be picking winners and losers. While financial advisors are regulated differently than insurance agents, they face the same challenges as small business owners. Therefore, financial advisors should qualify for this deduction equally.

Status

Senate Finance Committee Chairman Ron Wyden (D-OR) introduced legislation to streamline the Section 199A deduction for qualified business income for pass-through entities, **allowing financial advisors, accountants, lawyers, doctors and others to qualify, but would phase out the deduction for individuals making above \$400,000 in annual business income and disappear entirely at the \$500,000.**

We encouraged the Chair to consider further equalizing the statute by eliminating the income-based phase-out so that anyone can benefit from the 20 percent pass-through deduction. To address the very valid concern that the wealthy should not benefit excessively from the deduction, the deduction could be limited so that the 20% only applies to the first \$400,000 of business income. This would cap the deduction at \$80,000.

Actions

LPL Government Relations formed a coalition to join with other industry members and speak with one voice when highlighting this issue with Congress. We have held several meetings with the Senate Committee on Finance and the House Committee on Ways and Means, which have jurisdiction on the issue. We have met with Chairman Richie Neal (D-MA) on the House Committee on Ways and Means, as well as his staff. They are sympathetic to our argument and are not opposed to our efforts to fix this disparity between financial advisors and insurance agents.

In addition to Congressional meetings, LPL (and the industry coalition) has submitted several letters advocating for this change and Dan Arnold, LPL Financial CEO and President, has provided written testimony to the House Committee on Ways and Means.

This material was prepared by LPL Financial.

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