Q. How are pass-through businesses taxed?

A. Pass-through businesses are not subject to the corporate income tax. Rather, profits flow through to owners and are taxed under the individual income tax. Some pass-through income may be eligible for a 20 percent deduction beginning in 2018.

Pass-through income is only subject to a single layer of income tax and is generally taxed as ordinary income up to the maximum 37 percent rate. However, certain pass-through income may be eligible for a 20 percent deduction, which reduces the top tax rate to as low as 29.6 percent. Pass-through businesses generally face the same tax rules as C corporations for inventory accounting, depreciation, and other provisions affecting the measurement of business profits.

20 PERCENT PASS-THRU...
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depreciable property. That limitation is phased-in over the same income range as the specified service limitation.

Further Reading