

Private Practice Physical Therapists

Small business professionals restoring function to America - one patient at a time.

PASS THROUGH (199A) TAX DEDUCTION FAQ

Q: What is the “pass-through” income tax deduction?

A: Signed into law on December 2017, the *Tax Cuts and Jobs Act* allowed individuals who are in qualified trades or businesses (QTBs) and pay their business income taxes through their individual income tax returns to be eligible for a 20% tax deduction on qualified business income.

Q: When does the 20% pass-through tax deduction go into effect?

A: This tax break begins with the current tax year (beginning January 1, 2018).

Q: How long does the 20% pass-through deduction last?

A: The deduction is available from 2018 until 2026.

Q: How do IRS regulations impact or reduce providers’ ability to take the tax deduction?

A: The Department of Treasury and the Internal Revenue Service (IRS) [finalized regulations](#) in February 2019 (RIN-1545-BO71) which add physical therapists to the list of health-related Specified Service Trades or Businesses (SSTB). This regulation removes physical therapists from the general category of qualified trade or business.

Q: Now that physical therapists are defined by the IRS as a SSTB, can they still use the 20% pass-through deduction?

A: A self-employed physical therapist who earns less than \$157,500 as an individual or \$315,000 if married filing jointly can still take the full 20% deduction. A physical therapist who earns W-2 wages cannot utilize the 20% pass-through deduction.

Q: What are the income limits for the tax deduction?

A: As a result of physical therapists being defined a SSTB, this deduction phases out for those whose incomes are between \$315,000 and \$415,000 for married taxpayers who file jointly, or between \$157,500 and \$207,500 for single taxpayers. For those whose income exceeds \$415,000 if married filing jointly or \$207,500 for individual taxpayers, no pass-through deduction is available.

Q: Is the qualified business income (QBI) threshold based on gross or net income?

A: The QBI threshold for the pass-through deduction is based on the net amount of qualified items of income, gain, deduction, and loss.

Q: How did PPS advocate for its members on the issue?

A: In October 2018 PPS submitted [this comment letter](#) to the Department of Treasury’s Internal Revenue Service advocating for physical therapists to be granted the full 20% pass-through deduction (without income-based limitations). Unfortunately, the final rule imposed income limits (described above) on access to the pass-through deduction.

Q: What if a business is a corporation and therefore can’t use the pass-through deduction?

A: The *Tax Cuts and Jobs Act* provided for a permanent flat 21% tax rate for corporations.

As everyone’s situation is different, PPS members should consult their tax professional for detailed advice on this matter.