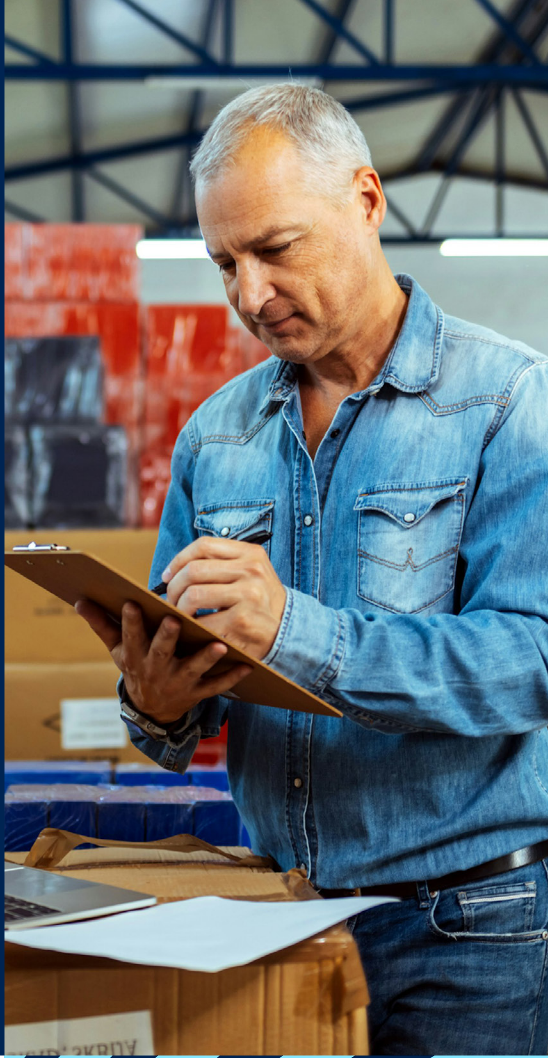
U.S. Chamber of Commerce

How Businesses Would Be Impacted If Tax Cuts Expire

Nearly all Main Street businesses will face tax hikes if Congress fails to extend key provisions of the 2017 Tax Cuts and Jobs Act set to expire at the end of this year. A new tool from the U.S. Chamber of Commerce helps businesses calculate the potential impact.



The U.S. Chamber's new QBI Tax Increase Calculator is designed to provide a simplified illustration of the potential tax cost to Main Street business owners if Congress allows section 199A to expire at the end of this year, based on estimated 2026 tax brackets provided by the Tax Foundation.

As part of the 2017 Tax Cuts and Jobs Act (TCJA), Congress permanently lowered the corporate income tax rate from 35% to 21%. And to ensure that pass-through businesses like sole proprietorships, partnerships, and S corporations would not be placed at a major tax disadvantage relative to C corporations, Congress also created a new 20% deduction for qualified business income (QBI) in section 199A of the Internal Revenue Code.

Scan the QR code to access the QBI Tax Increase Calculator

Actual taxes will vary based on applicable deductions, credits, etc. This tool provides an estimate of the potential tax increase caused by the expiration of section 199A and the TCJA's lower marginal tax rates.

The QBI Deduction: How It Works and What It Does

The 20% QBI deduction effectively operates as a rate reduction for pass-through businesses, which currently make up over 95% of all U.S. businesses. If a business owner's income exceeds a certain threshold ($394,600 for joint filers and $197,300 for other filers in 2025), however, the benefit of the 20% deduction may be limited based on the amount of wages paid to non-owner employees (W-2 wages). Generally speaking, therefore, the more W-2 wages a business pays, the greater the deduction that business's owner(s) can claim.

Coupled with TCJA's reduction of the top marginal individual income tax rate from 39.6% to 37%, the 20% QBI deduction results in a top marginal rate of 29.6% for most pass-through businesses. Since it took effect in 2018, the deduction has increased the after-tax return on capital investments in pass-through businesses and boosted the amount of revenue accruing to workers through higher wages.

2025 Tax Cliff and Implications for Main Street Businesses

Unlike the TCJA's permanent statutory rate reduction for C corporations, the 20% QBI deduction for pass-through businesses is scheduled to expire at the end of 2025. Absent congressional action, therefore, the top marginal tax rate on pass-through businesses would jump by 10 percentage points—from 29.6% to 39.6%—on January 1, 2026.

This would deliver a major blow to the more than 95% of American businesses currently classified as pass-through entities, which employ 58% of all U.S. private-sector workers.

Growing America's Future

Smart tax policy is crucial for America's future. In 2025, lawmakers can advance growth-oriented tax policies and avoid the largest tax increase in American history, set to occur when key provisions of the 2017 TCJA expire.

The U.S. Chamber's *Growing America's Future* campaign advocates for maintaining a pro-growth tax code to foster a robust U.S. economy that benefits all Americans. Through policy recommendations, polling, first-hand business stories, and research, together with the support of over 500 business voices, the U.S. Chamber is urging Congress and the administration to promote economic growth and prevent tax increases as a top priority this year.

Visit www.uschamber.com/taxes to learn more.