Press Release

Primer: The TCJA and S Corporations

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The Tax Cuts and Jobs Act of 2017 (TCJA) created a new deduction for pass-through business owners that allows S corporation shareholders to deduct up to 20 percent of their qualified business income from their federal income tax liability – but this provision will expire in 2025 unless Congress acts to extend it. In a new primer, Director of Fiscal Policy Jordan Haring explains how S corporations work, how they are taxed, and the importance of the TCJA's reforms.

Key points:

- An S corporation is a business that elects to be treated as a pass-through business for federal income tax purposes, meaning its profits are "passed-through" to its owners (shareholders) and the owners record their allocated shares of the business' profits as taxable income on their federal income tax returns.
- The S corporation has become the dominant business structure in the United States; the number of businesses classified as an S corporation increased by 839 percent between 1980 and 2021, growing from about 545,400 to over 5.1 million.
- Because an S corporation passes its profits on to its shareholders, it is generally not subject to the 21-percent corporate income tax; its owners are instead liable for federal individual income and payroll taxes, as well as state and local income taxes.

Read the analysis