

What is a Specified Service Trade or Business for Section 199A

New Section 199A permits pass-throughs to deduct up to 20% of their income derived from a pass-through business. Whether a qualified trade or business is a Specified Service Trade or Business (SSTB) is a key element to the operation of the new passthrough tax deduction. Depending on a taxpayer's taxable income, the qualified business income (QBI) from an SSTB may not be eligible for any deduction solely because it is an SSTB.

Section 199A defines an SSTB by reference to the provision of services in certain identified fields. The IRS provided guidance as to what activities will constitute an SSTB in proposed regulations released in August 2018.¹ Until final regulations are released, taxpayers can rely on the guidance provided by the proposed regulations.

Below is a summary of the proposed regulations. For a more detailed analysis of this topic go to the Advanced Planning library and see the article entitled "What is a Specified Service Trade or Business for Section 199A" or click on the link at the bottom below. Here are some of the key businesses that constitute a SSTB.

- Health—medical services provided by individuals such as physicians, pharmacists, nurses, dentists, veterinarians, physical therapists, psychologists and other similar healthcare professionals.
- Law—performance of services by lawyers, paralegals, legal arbitrators, and mediators.
- Accounting—services by individuals such as accountants, enrolled agents, return preparers, and financial auditors. Includes tax return and bookkeeping services.
- Consulting—professional advice and counsel to clients to assist the client in achieving goals and solving problems. Includes all attempts to influence legislators and other government officials on behalf of a client by lobbyists and other similar provisions performing services in their capacity as such.
- Financial services—financial services to clients including managing wealth, advising clients with respect to finances, developing retirement plans, and developing wealth transition plans.
- Brokerage services—services performed by stock brokers and similar professionals.
- Investing and investment management—services involving the receipt of fees for providing investing, asset management, or investment advice.

In addition to defining which businesses are an SSTB, the proposed regulations also have a de minimis rule which spells out when a trade or business will not be an SSTB merely because it provides a small amount of services in a specified service activity. Similarly, the proposed regulations have related anti-business rules which will cause a trade or business to be considered an SSTB even if it does not provide services in a specified service activity.

¹ 83 F.R. 40884 (Aug. 16, 2018).

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For a more detailed analysis of the proposed regulations under Section 199A and for more articles on related topics on Section 199A, go to the Advanced Planning Library by clicking on the link below:

- What is a Specified Service Trade or Business for Section 199A
 - https://service.nmfn.com/aplibryweb/publications/doc/sstb_defined_propregs.pdf

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