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## ReaganView

### 20% Passthrough Tax Deduction - What it Means for You

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To our friends and clients,

The Treasury Department and the IRS recently issued final regulations related to the qualified business income (QBI) deduction for passthrough entities, formally known as Section 199A of the Tax Cuts and Jobs Act. As many of you know, Section 199A establishes a 20% deduction on QBI for owners of passthrough entities (S corporations, partnerships, etc.). However, when initially released, many feared that the insurance brokerage industry would not qualify for the deduction. Despite the good news discussed below, the law is complex and you may want to provide this article to your tax advisor as soon as possible.

The most important takeaway from the final regulations for agents and brokers is that insurance brokerage activity **does qualify for the passthrough deduction**. This is great news for our clients and the insurance distribution industry (~60% of Best Practices agencies organized as a qualifying passthrough entity in 2018) and, based on our analysis, the majority of passthrough agency owners should realize the full 20% deduction on their 2018 tax returns.

That said, a potential limiting factor for an agency is related to business activity categorized as a specified service trade or business (SSTB). The IRS includes a list of SSTB activities that could disqualify an owner from claiming the QBI deduction, and specifically provides safe harbor to insurance brokerage activity. However, it is likely that common ancillary services provided by some agencies will meet the SSTB definition. These include retirement consulting, wealth management or other “consulting-like” services. Even if you do perform these services, there are materiality thresholds within the regulation as well as potential structuring options to consider in order to maximize the deduction.

Many of you may be wondering how this deduction will impact your annual agency valuation if you are a passthrough entity. Given the ability to recognize the full deduction, the answer is simple – we expect a modest increase.

mentioned, we suggest you consult with your fellow owners and tax advisors as soon as possible to evaluate your position and develop strategies to address specific issues, if needed.

Finally, in order to help you and your tax advisor address the complexity, we have created the [attached flowchart](#).

**John Merrill**

**Vice President/Reagan Consulting**



*ReaganView* is Reagan Consulting's forum for providing an occasional perspective on issues and opportunities relevant to the insurance distribution system

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Congratulations to our good friends at [Bouchard Insurance](#) on their new partnership with Marsh & McLennan Agency

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