

Tax Treatment of the Pass-Through Business Sector: A Primer

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Key Findings

- The pass-through business sector—including partnerships, S corporations, and sole proprietorships—employs most of the private-sector workforce in the US and accounts for about half of US business income.
- The growth of the pass-through sector is linked to long-standing tax advantages, as business income earned by traditional C corporations faces higher effective tax rates due to the corporate tax at the entity level and shareholder taxes on dividends and capital gains. Recent changes, including the Section 199A deduction, generally preserve these tax advantages.
- Pass-through entities face certain limitations, and their tax filing is relatively complex, costing US taxpayers more than \$100 billion per year to comply with various tax forms.
- Reforming the tax treatment of US pass-through businesses has the potential to greatly reduce compliance costs while improving economic growth.
- A coherent business tax system that is simple, neutral across business forms, and pro-growth requires fundamental changes. A key goal should be a more fully integrated corporate and individual income tax code, combining the organizational and financing advantages of C corporations with the neutral tax treatment of pass-throughs.

Introduction

The taxation of business income in the US is anything but straightforward.¹ One aspect of its complexity is that different business forms receive different tax treatment. The standard business form in the US historically and in most countries is the C corporation, which is generally subject to corporate income tax while shareholders face additional tax on dividends and capital gains. In contrast, pass-through businesses, including partnerships, S corporations, and sole proprietorships, do not face a corporate entity-level tax, but instead pass through income to owners' individual tax returns, where it is subject to ordinary individual income tax.

Pass-through businesses have proliferated in the US over the last several decades, such that the sector now employs most of the private-sector workforce and accounts for about half of business income. As of 2022, about \$1.6 trillion of pass-through business income was reported on individual tax returns, representing more than 10 percent of income overall and almost a third of income for high-earners.² The growth of the pass-through sector is linked to long-standing tax advantages, mainly lower effective tax rates than the resulting rates on corporate income from taxes at both the entity and shareholder levels. Tax reforms over the last decade have substantially changed the business tax landscape, including 2017's Tax Cuts and Jobs Act (TCJA) and 2025's One Big Beautiful Bill Act (OBBBA).

Our paper first provides a background on the pass-through sector and its tax treatment, then discusses options for reform that would reduce the complexity and non-neutrality of the current rules. The ideal reform would integrate the corporate and individual income tax codes to reduce double taxation of corporate income and subject all businesses to the same, simplified rules. This would greatly simplify tax filing, saving over \$100 billion of compliance costs per year, and improve economic growth.

Background on the Pass-Through Business Sector

When most people think of businesses in America, they think of corporations, without recognizing the important role that pass-through businesses play. Over the last several decades, rapid growth in the pass-through business sector has made this the dominant form of business in many ways. This matters because pass-through businesses are taxed differently than traditional C corporations, a distinction with important implications for tax reform and a range of issues, including changes in income inequality over time and comparisons of corporate tax revenue across countries.

1 As one measure of the complexity, the annual cost of complying with the federal tax code is estimated at \$536 billion, most of which is due to business tax forms. See: Sam Cluggish and Alex Muresianu, "Tax Complexity Now Costs the US Economy over \$536 Billion Annually," Tax Foundation, Aug. 27, 2025, <https://taxfoundation.org/data/all/federal/irs-compliance-complexity-tax-costs/>.

2 Rebecca Walker and Alex Muresianu, "Sources of Personal Income, Tax Year 2022," Tax Foundation, Jan. 13, 2026, <https://taxfoundation.org/data/all/federal/personal-income-tax-returns-data-2026/>.

What Are Pass-Through Businesses?

Pass-through businesses and C corporations are the two main legal forms of businesses. Pass-through businesses in the United States include partnerships, sole proprietorships, and corporations electing to be taxed at the shareholder level (e.g., Subchapter S corporations, regulated investment companies [RICs], and real estate investment trusts [REITs]).³ These entities are called pass-through businesses because their income does not face the corporate tax at the entity level but is passed through to their owners' individual income tax returns and taxed there.

Most Business Tax Returns in America Are from Pass-Throughs

Since the early 1980s, the pass-through sector has grown substantially as a share of all business activity.⁴ The number of pass-through business returns increased from 10.9 million in 1980 to 40.8 million in 2022, while the number of C corporations fell from 2.2 million in 1980 to 1.6 million in 2022. As a share of all business returns, pass-through businesses grew from 83.4 percent in 1980 to 96.3 percent in 2022 (see Figure 1 below).

S corporations saw the largest and most sustained growth during the period, increasing almost tenfold from a little more than half a million in number in 1980 to almost 5.3 million in 2022. As a share of all business returns, S corporations grew from 4.2 percent in 1980 to 12.4 percent in 2022.

Partnerships, including general and limited partnerships as well as limited liability companies electing to file as partnerships, grew in number over this period but remained relatively steady as a share of all business returns. In 1980, about 1.4 million partnerships filed with the IRS compared to about 4.5 million in 2022, representing 10.6 percent of all business returns in both years.

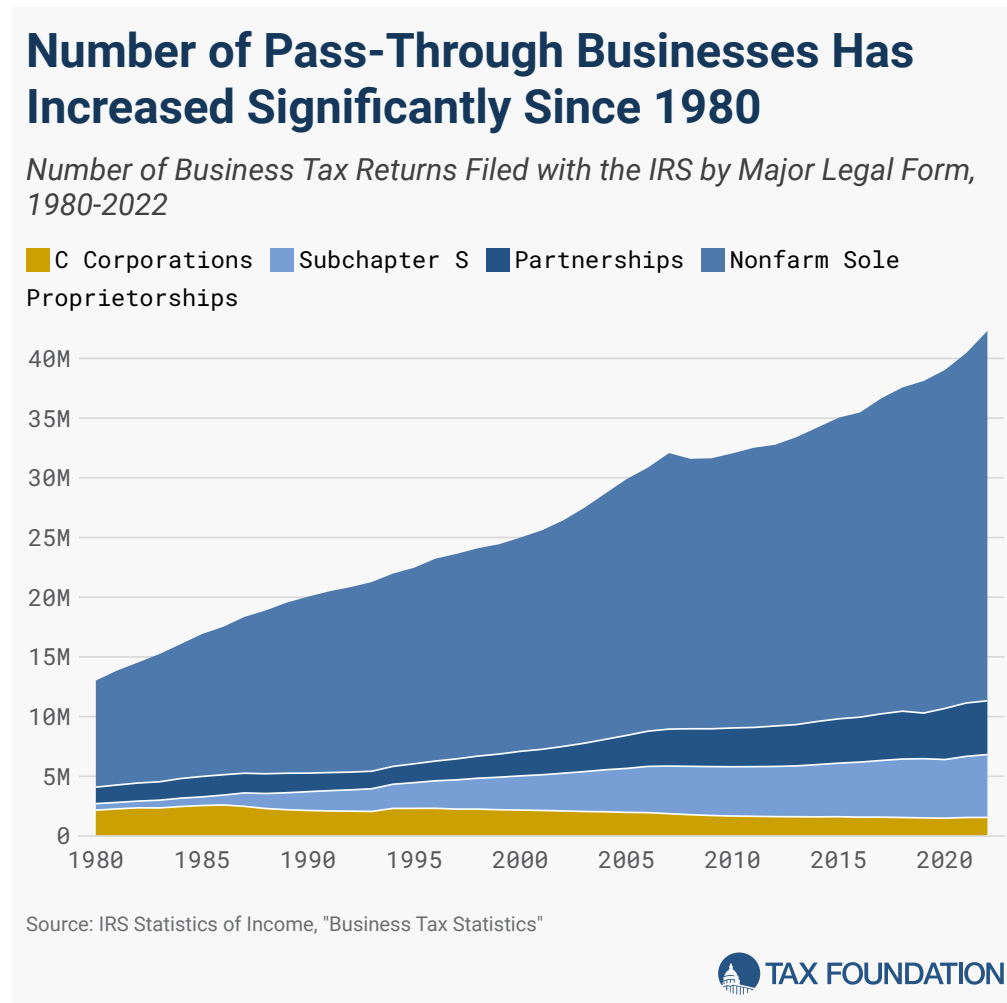
By far the most prevalent business return type throughout this period is nonfarm sole proprietorships, which numbered about 8.9 million in 1980 and almost 30 million in 2022. As a share of business returns, nonfarm sole proprietorships grew from 68.6 percent in 1980 to 73.2 percent in 2022. Based on the total number of individual income tax returns, the share of individual filers reporting sole proprietorship income has increased steadily over this period, from 9.5 percent in 1980 to 19.2 percent in 2022.⁵

3 RICs and REITs share a key feature of pass-through businesses in that they generally avoid entity-level taxation by distributing income to shareholders. However, because they are corporate investment vehicles rather than operating businesses, they are excluded from our later discussions on pass-through businesses.

4 IRS Statistics of Income, "Business Tax Statistics," <https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics>.

5 IRS Statistics of Income "Table 1—All Individual Income Tax Returns: Sources of Income and Tax Items, Tax Years 1913-2005," <https://www.irs.gov/statistics/soi-tax-stats-individual-time-series-statistical-tables>; IRS Statistics of Income, "Table A. All Individual Income Tax Returns: Selected Income and Tax Items," <https://www.irs.gov/statistics/soi-tax-stats-individual-time-series-statistical-tables>.

Figure 1.



Pass-Through Businesses Earn Nearly Half of Net Income (Profits)

The share of business income earned by pass-through businesses has increased substantially since 1980. The combined net income of S corporations, partnerships, and nonfarm sole proprietorships was 22 percent of total business income in 1980. However, by 1998, pass-through business income had surpassed C corporation income. Over the next 20 years, it averaged 60 percent of all business income, though the share fluctuated considerably along with the business cycle due to the volatility of C corporation net income, which declined substantially during recessions. Since the enactment of the TCJA in 2017, pass-through business income has averaged 49 percent of all business income, falling to 46 percent in 2022, the most recent year of IRS data.

The pass-through sector is uncommonly large in the US compared to most other developed countries, where C corporations are more prevalent.⁶ For instance, a survey comparing six major countries in 2009 found that only Germany has a similarly large pass-through business sector.⁷

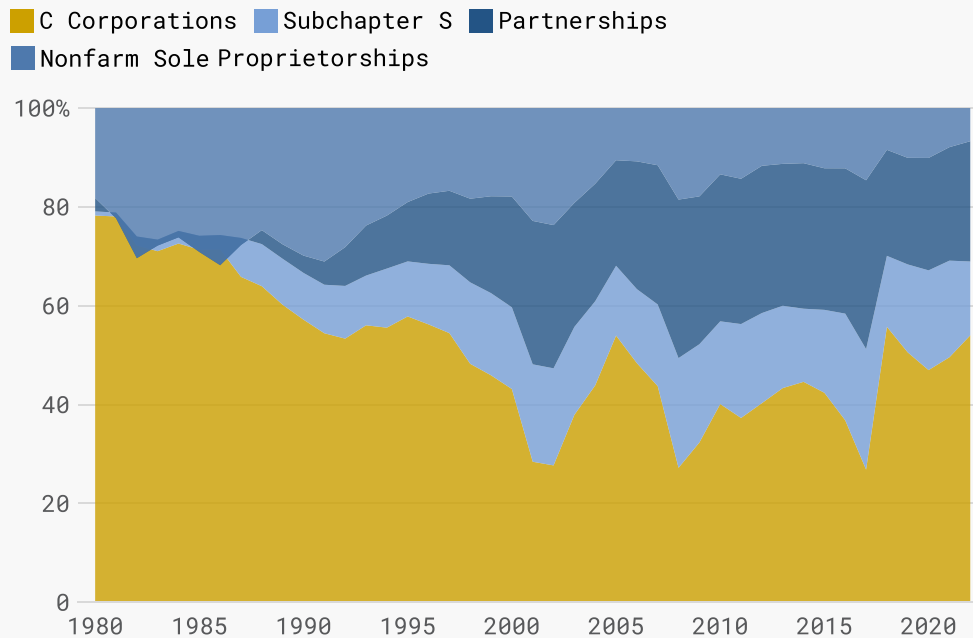
⁶ See, for example, the review of studies by Wojciech Kopczuk, "The messy boundary between pass-through and corporate taxation," *Oxford Review of Economic Policy* 39:3 (Autumn 2023): 451-459, <https://doi.org/10.1093/oxrep/grad034>.

⁷ Joint Committee on Taxation, "Foreign Passthrough Entity Use in Five Selected Countries," October 2013, <https://www.jct.gov/publications/2013/foreign-passthrough-entity-use-in-five-selected-countries/>.

Figure 2.

Pass-Through Profits Have Been Nearly Half or More of All Profits Since the Late-1990s

Share of Profits by Major Legal Form, 1980-2022



Not All Pass-Through Businesses Are Small Businesses

Pass-through businesses are often associated with small firms, but Census Bureau data show they span a wide range of sizes.⁸ While most pass-through businesses (80 percent) employ between 1 and 99 workers, many are large firms with more than 500 employees. In 2023, more than 6.7 million pass-through employees—roughly 7.5 percent of total pass-through employment—worked at firms with 500 or more employees.

At the same time, the rise of the gig economy has driven growth in non-employer businesses.⁹ This set of small businesses refers to the establishments without employees as reported in the Census Bureau Nonemployer Statistics.¹⁰ Growth in non-employer businesses has buoyed the share of small businesses in the pass-through sector. Census data shows that the share of pass-through businesses with fewer than 100 employees has increased from 72.5 percent in 2011 to 80 percent in 2023.¹¹

⁸ US Census Bureau, "County Business Patterns: Latest Data: 2023," <https://www.census.gov/programs-surveys/cbp.html>.

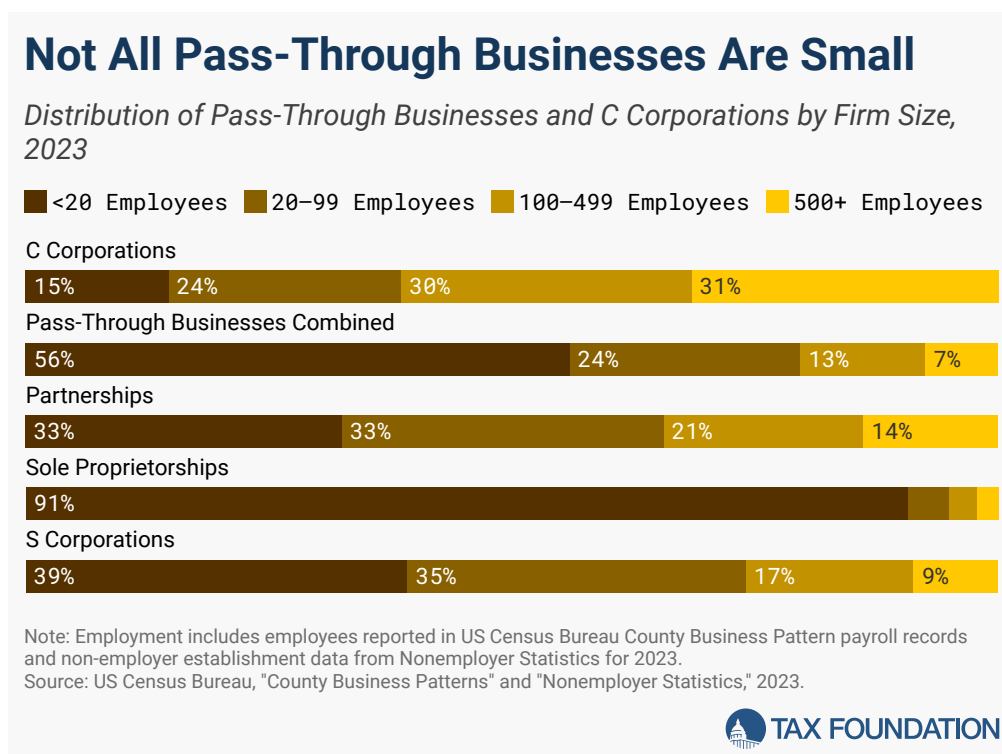
⁹ Christopher Goetz, Henry R. Hyatt, Zachary Kroff, Kristin Sandusky, and Martha Stinson, "Business Owners and the Self-Employed: Thirty-Three Million (and Counting!)," NBER Working Paper 34252 (2025), <https://doi.org/10.3386/w34252>.

¹⁰ US Census Bureau, "Nonemployer Statistics, 2023," <https://www.census.gov/programs-surveys/nonemployer-statistics.html>.

¹¹ Kyle Pomerleau, "An Overview of Pass-through Businesses in the United States," Tax Foundation, Jan. 21, 2015, <https://taxfoundation.org/research/all/federal/overview-pass-through-businesses-united-states/>.

One factor behind the relatively large size of many C corporations is that this remains the dominant business form among publicly traded companies, due to the institutional framework allowing them to issue stock to raise funds from a large number of shareholders, both domestic and foreign. S corporations are explicitly limited to 100 shareholders who are US citizens or resident aliens. Only a small number of partnerships (sometimes called master limited partnerships) are publicly traded, mainly in the finance and energy industries, and many of those have switched to C corporation form in recent years to take advantage of the simpler structure for investors.¹² For the same reasons, startup companies that are seeking to go public one day generally prefer the C corporation form.

Figure 3.



Distribution of Pass-Through Income Across Income Groups

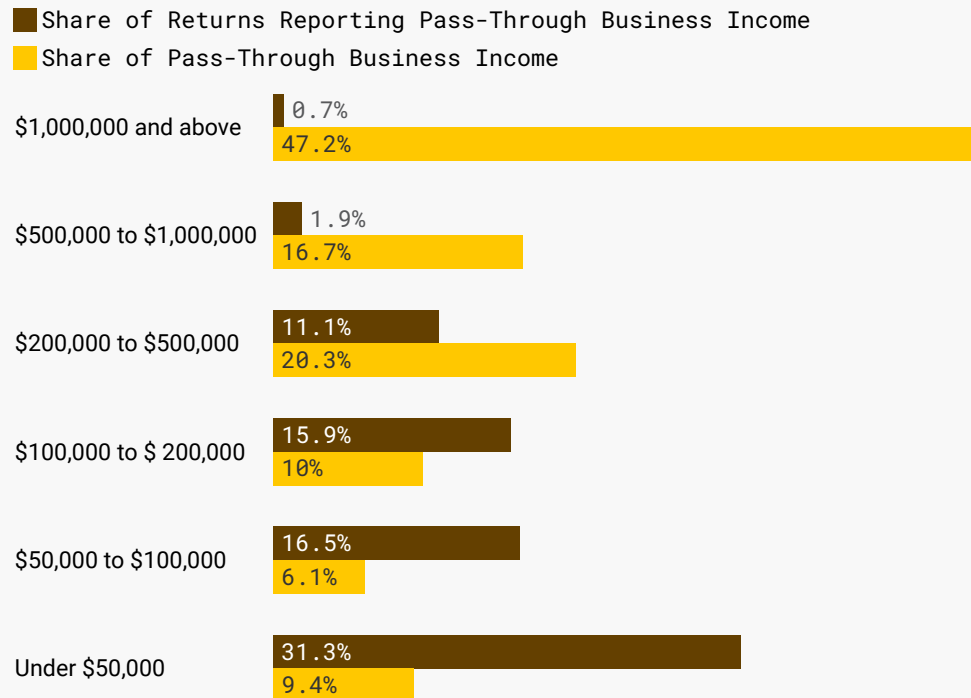
High-income earners report the majority of pass-through business income. According to Tax Foundation modeling, based on extrapolated IRS tax records, taxpayers earning \$500,000 to \$1 million report about 17 percent of pass-through income despite representing only 2 percent of returns with pass-through income. Further, taxpayers earning \$1 million and above report about 47 percent of all pass-through income, even though they account for less than 1 percent of returns with pass-through income. While lower- and middle-income taxpayers account for a substantial share of returns with pass-through business income, they only report a small portion of total pass-through income. For example, almost half of the returns that reported pass-through income were filed by taxpayers earning less than \$100,000, but they only accounted for 15 percent of total pass-through business income.

¹² Josh White, "Blackstone Restructures as Corporation After TCJA," *International Tax Review*, Apr. 18, 2019, <https://www.internationaltaxreview.com/article/2a68ra-ha94goaj1n49r45/blackstone-restructures-as-corporation-after-tcja>.

Figure 4.

High-Income Taxpayers Report Majority of Pass-Through Business Income

Distribution of Pass-Through Business Income Across Income Groups, 2025



Source: IRS; Tax Foundation General Equilibrium Model, January 2026



Pass-Through Businesses Account for Most Private-Sector Workforce Across All States

Pass-through businesses play a central role in the US labor market: 6 in 10 private-sector workers are employed or self-employed by pass-through firms.¹³ Pass-through employment is widespread nationwide and accounts for the majority of the private-sector workforce in every state, but its importance varies significantly across the country.

In Montana, Wyoming, Idaho, South Dakota, Louisiana, and Vermont, pass-through businesses account for an especially large share of private-sector jobs—roughly 67 to 73 percent of total employment. At the low end, pass-through businesses account for about 52 to 57 percent of private-sector jobs in Hawaii, Iowa, Delaware, Massachusetts, and Tennessee.

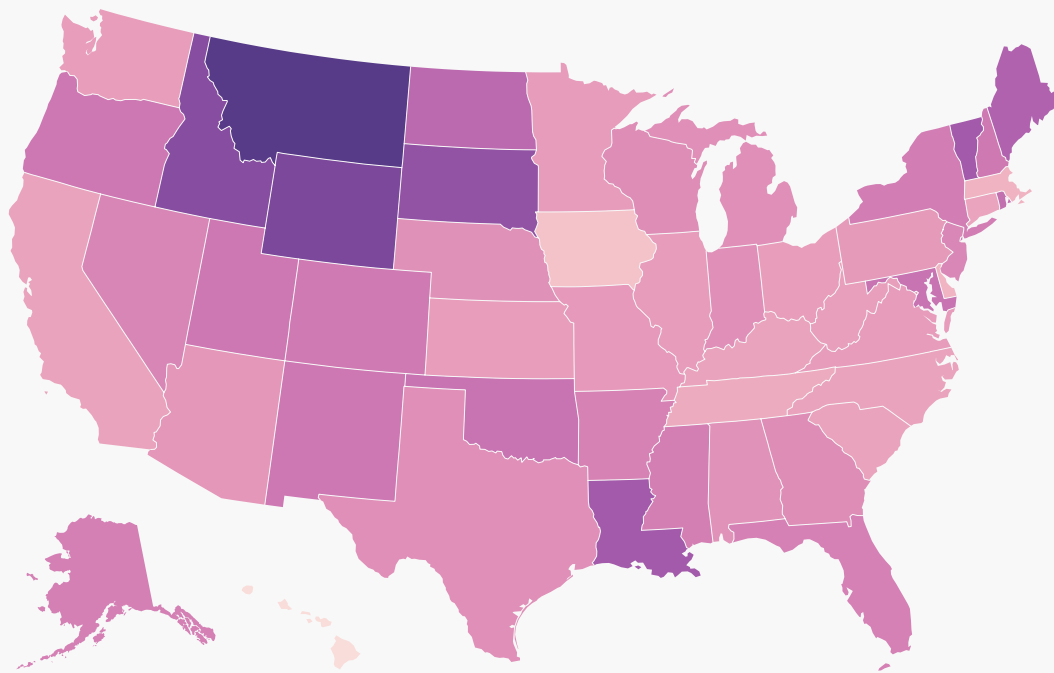
¹³ US Census Bureau, "County Business Patterns: Latest Data: 2023," <https://www.census.gov/programs-surveys/cbp.html>; US Census Bureau, "Nonemployer Statistics, 2023," <https://www.census.gov/programs-surveys/nonemployer-statistics.html>.

Figure 5.

Pass-Through Businesses Employ Majority of Private-Sector Workforce in Every State

Pass-Through Employment as a Share of Total Private-Sector Employment

51.76% 73.42%



Source: US Census Bureau, "County Business Patterns" and "Nonemployer Statistics," 2021



Pass-Through Businesses Account for the Majority of Private-Sector Employment in Most Industries

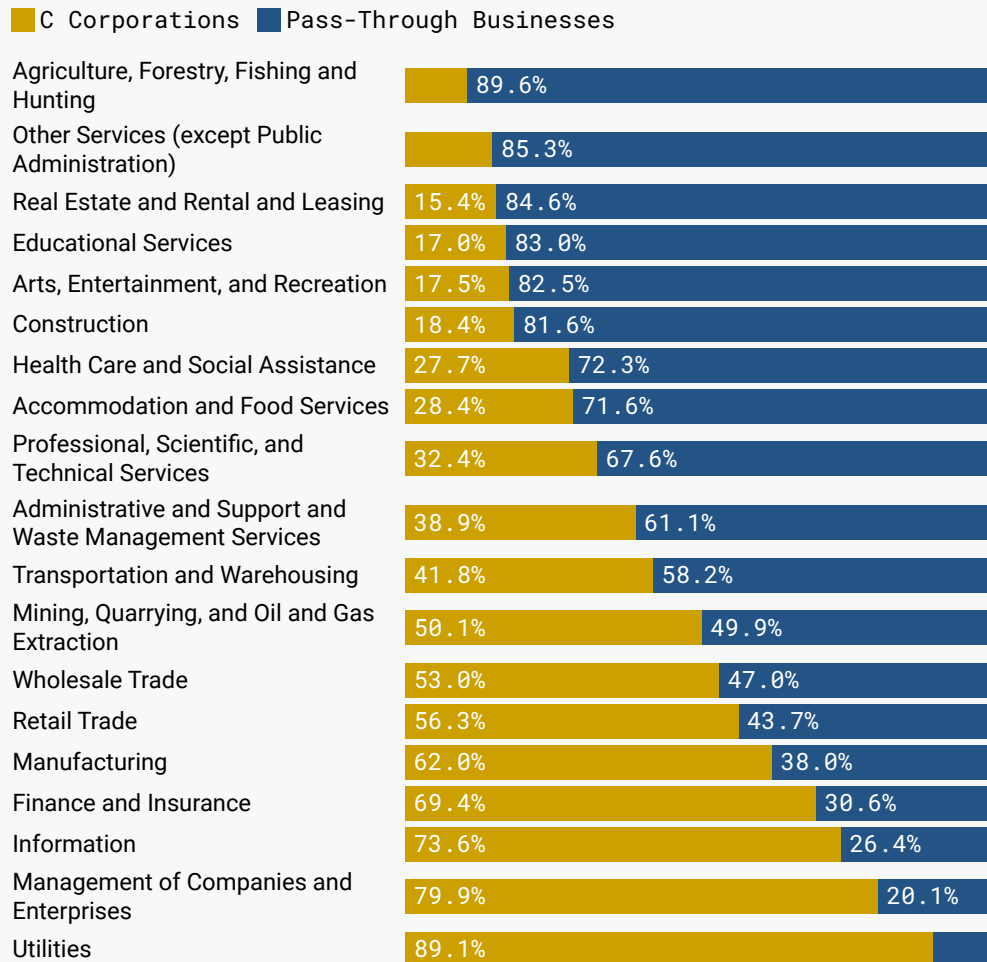
The distribution of private-sector employment varies substantially by legal form, but pass-through businesses account for the majority of employment in most industries. Pass-through firms dominate employment across a broad range of industries, including much of the service sector.

Pass-through businesses employ more than two-thirds of the workforce in agriculture, real estate, education, arts and entertainment, construction, health care, accommodation and food services, and professional services. In contrast, C corporations are more prevalent in a smaller number of industries that are primarily capital-intensive or highly consolidated, including utilities, management of companies and enterprises, information, finance and insurance, and manufacturing.

Figure 6.

Pass-Through Businesses Especially Prevalent in Much of the Service Sector

The Distribution of Private-Sector Employment by Business Form in Each Industry, 2023



Note: Employment includes employees reported in US Census Bureau County Business Patterns payroll records and non-employer establishment data from Nonemployer Statistics for 2023.
Source: US Census Bureau, "County Business Patterns" and "Nonemployer Statistics," 2023



Tax Policy Background, Rationale, and Discussion

The growth of the US pass-through sector since the 1980s, and apparent stabilization since the TCJA in 2017, can in many ways be explained by differences in tax treatment by business form and major changes in federal income tax policy, the largest being the Tax Reform Act of 1986 and the TCJA. The following section briefly reviews these major changes and identifies problems that remain.¹⁴

¹⁴ While beyond the scope of this paper, other tax factors include state and local income taxes and federal, state, and local payroll taxes that apply to pass-through business income. At the federal level, payroll taxes to fund Social Security and Medicare, including Federal Insurance Contributions Act (FICA) and Self-Employment Contributions Act (SECA) taxes, can differ considerably across business forms. See, for example, Congressional Budget Office, "Options For Reducing The Deficit: 2019 to 2028: Tax All Pass-Through Business Owners Under SECA and Impose a Material Participation Standard," Dec. 13, 2018, <https://www.cbo.gov/budget-options/2018/54808>.

Tax Treatment from the 1980s to Today

A general reduction in individual income tax rates over the last several decades has been an important factor in the rise of the pass-through sector. In the Tax Reform Act of 1986, the top marginal federal individual income tax rate was reduced from 50 to 28 percent, making pass-through businesses more attractive compared to the decrease in the federal corporate tax rate from 46 to 34 percent in the same legislation.

This difference, paired with other provisions that favored pass-through income, including increases to the standard deduction and personal exemption amounts, contributed to growth in the pass-through sector since the 1980s. Other contributing factors include the loosening of shareholder restrictions on S corporations, which were originally capped at 10 shareholders but lifted in stages to 100 by 2005, and the development of state law allowing limited liability companies to be taxed as partnerships.¹⁵ In subsequent years, the top individual income tax rate rose, ranging from 35 percent to 39.6 percent, while the corporate tax rate rose to 35 percent.

The TCJA cut the federal corporate tax rate from 35 to 21 percent.¹⁶ The TCJA substantially reduced the double taxation of corporate income by lowering the corporate tax rate by 14 points, making the US more competitive with other developed countries and reducing the disincentives to operate as a C corporation in the US. The top integrated tax rate on corporate income distributed as dividends was about 56 percent in 2017, nearly the highest in the OECD, before the TCJA reduced it to about 47 percent, leaving the US above average but lower than several other OECD countries.¹⁷

The TCJA also cut individual income tax rates, bringing the top rate down from 39.6 percent to 37 percent—a relatively minor reduction compared to the decrease in corporate rates.¹⁸ Pass-through businesses sought individual rate cuts comparable to the corporate rate cut.¹⁹

To provide a similar tax cut for pass-through businesses, the TCJA included a special deduction, Section 199A, allowing individuals to deduct up to 20 percent of qualified business income (QBI) from a partnership, S corporation, sole proprietorship, REIT, or publicly traded partnership, amounting to a 20 percent reduction in marginal tax rates on this income. To prevent abuse of the provision and reduce its cost, lawmakers included several limitations aimed at distinguishing QBI from labor income, with additional limitations for upper-income households based on the type of business (disallowing the deduction for specified service businesses), the amount of wages paid by the business, and the original cost of the business's property.²⁰

15 Susan M. Wittman and Amy Gill, "S Corporation Elections After the Tax Reform Act of 1986," IRS SOI Bulletin, Spring 1998, <https://www.irs.gov/pub/irs-soi/87scorp.pdf>; Wojciech Kopczuk, "The messy boundary between pass-through and corporate taxation," *Oxford Review of Economic Policy* 39:3 (Autumn 2023): 451-459, <https://doi.org/10.1093/oxrep/grad034>.

16 Erica York, "The Benefits of Cutting the Corporate Income Tax Rate," Tax Foundation, Aug. 14, 2018, <https://taxfoundation.org/research/all/federal/benefits-of-a-corporate-tax-cut/>.

17 Elke Asen, "Double Taxation of Corporate Income in the United States and the OECD," Tax Foundation, Jan. 13, 2021, <https://taxfoundation.org/research/all/federal/double-taxation-of-corporate-income/>; Kyle Pomerleau, "Eliminating Double Taxation through Corporate Integration," Tax Foundation, Feb. 23, 2015, <https://taxfoundation.org/research/all/federal/eliminating-double-taxation-through-corporate-integration/>.

18 Tax Foundation, *Historical US Federal Individual Income Tax Rates & Brackets, 1862-2025*, Aug. 15, 2025, <https://taxfoundation.org/data/all/federal/historical-income-tax-rates-brackets/>.

19 Kyle Pomerleau, "Section 199A and 'Tax Parity,'" American Enterprise Institute, September 2022, <https://www.aei.org/research-products/report/section-199a-and-tax-parity/>.

20 Scott Greenberg, "Reforming the Pass-Through Deduction," Tax Foundation, Jun. 21, 2018, <https://taxfoundation.org/research/all/federal/reforming-pass-through-deduction-199a/>.

Proponents of Section 199A argue it improves tax parity between C corporations and pass-through businesses, increasing the competitive position of pass-throughs relative to C corporations. Critics argue that the deduction does not improve parity but preserves a preference for pass-through businesses while significantly adding to deficits.²¹ Some claim it skews benefits toward the richest earners, going so far as to call it a subsidy.²²

In addition to creating the pass-through deduction, the TCJA increased the alternative minimum tax exemption and phaseout threshold and eliminated the Pease limitation on itemized deductions, both benefiting higher earners.²³ The TCJA allowed businesses of all types to immediately expense investment in short-lived assets (100 percent bonus depreciation) through 2022 and permanently expanded Section 179 expensing.

These tax cuts were paired with other provisions to offset some of the fiscal cost. Among the largest tax increases in the TCJA affecting pass-through businesses was a \$10,000 cap on individual income deductions for state and local taxes (SALT), which led many states to pursue workarounds by allowing pass-through entities to deduct SALT at the entity level (called a pass-through entity tax, or PTET). The TCJA also capped the deductibility of pass-through business losses at \$250,000 for single filers or \$500,000 for joint filers (allowing losses in excess of the cap to be carried forward).

Impacting both pass-throughs and C corporations, the TCJA required five-year amortization of domestic research and development (R&D) expenses (15 years for foreign-sited R&D), meaning deductions for these costs had to be written off over time, reducing the benefit of the deduction.²⁴ The TCJA also limited the deductibility of interest expense and repealed the domestic production activities deduction.

Nearly all the TCJA tax cuts for pass-through businesses were set to expire after the end of 2025, including the reduction in individual income rates and the Section 199A deduction, leaving permanent tax increases due to the limitations on business deductions for R&D, interest expense, and domestic production activities (affecting all business types). If these provisions had expired, pass-through businesses would have faced a substantial tax hike but still have lower effective tax rates on investment than C corporations when accounting for additional layers of tax on shareholder income.²⁵

The OBBBA permanently extended the TCJA's expiring provisions and made several changes to its design. On net, the new changes are favorable for pass-through businesses, preserving the tax advantages of operating as a pass-through business rather than a C corporation.²⁶ The Section 199A deduction was made permanent at 20 percent, adding a minimum deduction of \$400 and increasing the phase-in range

21 Karen C. Burke, "The Spurious Allure of Pass-Through Parity," *University of Florida Levin College of Law Research Paper* 21-17 (Feb. 12, 2021): 350-382, <https://ssrn.com/abstract=3784716>.

22 Chuck Marr, Samantha Jacoby, and George Fenton, "The Pass-Through Deduction Is Skewed to the Rich, Costly, and Failed to Deliver on Its Promises," Center on Budget and Policy Priorities, Jun. 6, 2024, <https://www.cbpp.org/research/federal-tax/the-pass-through-deduction-is-skewed-to-the-rich-costly-and-failed-to-deliver>.

23 Andrew Lutz and Arianna Fano, "The 2025 Tax Debate: The Alternative Minimum Tax and TCJA," Bipartisan Policy Center, Apr. 9, 2025, <https://bipartisanpolicy.org/explainer/the-2025-tax-debate-the-alternative-minimum-tax-in-tcja/>; Garrett Watson, "2017 Tax Changes Increase the Benefit of Uncapping SALT Deductions for High Income Taxpayers," Tax Foundation, Oct. 4, 2021, <https://taxfoundation.org/blog/salt-deduction-cap-repeal/>.

24 Alex Muresianu, "R&D Amortization Hurts Economic Growth, Growth Industries, and Small Business," Tax Foundation, Jun. 1, 2023, <https://taxfoundation.org/blog/rd-amortization-impact/>.

25 Kyle Pomerleau, "House Tax Bill Would Worsen Business Tax Parity," American Enterprise Institute, May 16, 2025, <https://www.aei.org/economics/house-tax-bill-would-worsen-business-tax-parity/>.

26 Ibid. Updated analysis from Kyle Pomerleau indicates pass-through businesses continue to have lower effective tax rates than C corporations post-OBBBA, with a marginal effective tax rate of 12.6 percent for pass-through businesses versus 20.5 percent for C corporations and an average effective tax rate of 28.4 percent for pass-through businesses versus 29.8 percent for C corporations.

for upper-income limitations by \$25,000 for single filers (\$50,000 for joint filers). The OBBBA increased the SALT deduction cap to \$40,000 on a temporary basis through 2029 for taxpayers with income below \$500,000 (otherwise maintaining the cap at \$10,000), benefiting some pass-through businesses unable to utilize PTET workarounds. However, the OBBBA increased taxes for filers in the 37 percent bracket by capping the value of itemized deductions at 35 percent. The OBBBA made several changes beneficial to both pass-through businesses and C corporations: it permanently extended expensing for short-lived assets and domestic R&D as well as a less stringent interest limitation, and it temporarily introduced expensing for certain structures used in manufacturing and production.²⁷

Economic, Fiscal, and Distributional Impacts of the Pass-Through Deduction

The tax favorability of pass-throughs is amplified by the Section 199A deduction. Those in favor of the deduction argue it could drive increased economic activity, such as investment and employment. Those in opposition warn that the deduction may encourage businesses to restructure to take advantage of the deduction, shifting rather than increasing economic activity.²⁸ Research conducted by Treasury economists in 2021 found little evidence of either increased investment or business reorganization.²⁹

Our modeling of the OBBBA's effects indicates that by reducing marginal tax rates on pass-through business income, the Section 199A deduction is one of the more pro-growth features of the package, boosting GDP over the long run by 0.5 percent. However, the deduction is also one of the more costly provisions, reducing revenue by \$740 billion over the next decade (conventionally measured), providing less bang for the buck compared to policies like full expensing.³⁰

Distributionally, reflecting the fact that pass-through business income is disproportionately earned by high-income households, Section 199A and other provisions that reduce tax on pass-through income disproportionately benefit the same high-income tax filers.³¹ Accounting for the economic benefits of these tax reductions, such as increased employment and wages, tends to result in a more even distribution of the benefits as measured by impacts on after-tax income. Additionally, Section 199A's guardrails that apply to upper-income households substantially reduce benefits at the top of the distribution.³²

Our conventional analysis indicates that tax filers in the 90th to 95th percentile of earnings benefit the most from the deduction, with after-tax income increasing 0.8 percent in 2026, while filers in the bottom quintile see the smallest benefits, with after-tax income increasing 0.1 percent in 2026. Accounting for economic growth over the decade shows a more even distribution of benefits, with after-tax income in 2034 increasing 1.1 percent for tax filers in the 90th to 95th percentile versus 0.4 percent for tax filers in the bottom quintile.

27 For a list of other major tax changes from the OBBBA, see: Garrett Watson, Huaqun Li, Erica York, Alex Muresianu, Alan Cole, Peter Van Ness, and Alex Durante, "One Big Beautiful Bill Act Tax Policies: Details and Analysis," Tax Foundation, Jul. 4, 2025, <https://taxfoundation.org/research/all/federal/big-beautiful-bill-senate-gop-tax-plan/>.

28 David Mitchell, "Factsheet: What the Research Says About Taxing Pass-Through Businesses," Washington Center for Equitable Growth, Apr. 30, 2024, <https://equitablegrowth.org/factsheet-what-the-research-says-about-taxing-pass-through-businesses/>.

29 Alex Durante, "New Research Finds Limited Effects on Taxpayer Behavior from Pass-through Deduction," Tax Foundation, Apr. 19, 2021, <https://taxfoundation.org/blog/pass-through-deduction-research/>.

30 Garrett Watson, Huaqun Li, Erica York, Alex Muresianu, Alan Cole, Peter Van Ness, and Alex Durante, "One Big Beautiful Bill Act Tax Policies: Details and Analysis," Tax Foundation, Jul. 4, 2025, <https://taxfoundation.org/research/all/federal/big-beautiful-bill-senate-gop-tax-plan/>.

31 Joint Committee on Taxation, "Data Related to Deductions Claimed Under Code Section 199A," Dec. 2024, <https://www.jct.gov/publications/2024/section-199a-report-december-2024/>.

32 Lucas Goodman, Katherine Lim, Bruce Sacerdote, and Andrew Whitten, "Simulating the 199A Deduction for Pass-through Owners," United States Department of the Treasury Office of Tax Analysis, May 2019, <https://home.treasury.gov/system/files/131/WP-118.pdf>.

Concerns about the distributional impact of the Section 199A deduction and other aspects of pass-through tax treatment relate to broader concerns about rising income inequality over the last several decades. However, scholars have noted that the rise of the pass-through sector itself affects measures of inequality.³³ Auten and Splinter show that earlier studies overstated the rise in inequality since the 1980s, due in part to a failure to properly account for corporate retained earnings and the increased reporting of business income on individual returns, especially after the Tax Reform Act of 1986.³⁴

Table 1. Distributional Effects of the Section 199A Pass-Through Business Deduction

Percent Change in After-Tax Income by Market Income Percentile

Market Income Percentile	2026, Conventional	2034, Conventional	2034, Dynamic
0% - 20%	0.1%	0.1%	0.4%
20% - 40%	0.2%	0.3%	0.6%
40% - 60%	0.3%	0.4%	0.7%
60% - 80%	0.4%	0.4%	0.8%
80% - 100%	0.6%	0.5%	0.9%
80% - 90%	0.6%	0.5%	0.9%
90% - 95%	0.8%	0.7%	1.1%
95% - 99%	0.6%	0.5%	0.9%
99.0% - 99.9%	0.5%	0.5%	0.8%
99.9% - 100%	0.2%	0.3%	0.6%
Total	0.5%	0.5%	0.8%

Note: Market income includes adjusted gross income (AGI) plus 1) tax-exempt interest, 2) non-taxable Social Security income, 3) the employer share of payroll taxes, 4) imputed corporate tax liability, 5) employer-sponsored health insurance and other fringe benefits, 6) taxpayers' imputed contributions to defined-contribution pension plans. Market income levels are adjusted for the number of exemptions reported on each return to make tax units more comparable. After-tax income is market income less: individual income tax, corporate income tax, payroll taxes, estate and gift tax, custom duties, and excise taxes. The 2026 income break points by percentile are: 20%-\$17,735; 40%-\$38,572; 60%-\$73,905; 80%-\$130,661; 90%-\$188,849; 95%-\$266,968; 99%-\$611,194. Tax units with negative market income and non-filers are excluded from the percentile groups but included in the totals. Source: Tax Foundation General Equilibrium Model, January 2026.

Relabeling, Tax Avoidance, and Compliance Issues

Favorable treatment for business income relative to labor income creates an incentive for taxpayers to reclassify income to reduce their overall tax liability. This arises in the US system when labor income is subject to payroll and social insurance taxes that do not apply to capital income, and the incentive increases when the tax code further privileges certain business forms or income sources.³⁵

Key features of the pass-through business system create a high risk of tax avoidance. These features, such as multi-tiered ownership structures and the "carried interest" preference, blur the lines between cap-

33 Wojciech Kopczuk, "The messy boundary between pass-through and corporate taxation," *Oxford Review of Economic Policy* 39:3 (Autumn 2023): 451-459, <https://doi.org/10.1093/oxrep/grad034>.

34 Gerald Auten and David Splinter, "Income Inequality in the United States: Using Tax Data to Measure Long-Term Trends," *Journal of Political Economy* 132:7 (July 2024), https://davidsplinter.com/AutenSplinter-Tax_Data_and_Inequality.pdf.

35 Wojciech Kopczuk, "The messy boundary between pass-through and corporate taxation," *Oxford Review of Economic Policy* 39:3 (Autumn 2023): 451-459, <https://doi.org/10.1093/oxrep/grad034>.

ital and labor income and increase the tax incentive to form a business as a pass-through.³⁶ Partnership rules, particularly tax allocation provisions, create opportunities to structure income and losses to maximize tax benefits in ways unavailable to corporate entities.³⁷

By increasing tax code favorability for pass-through businesses, the Section 199A deduction increases the incentive for relabeling, reorganizing, and other types of tax avoidance.³⁸ The deduction creates a situation wherein two individuals with the same income would be taxed differently depending on the source of their income (W-2 wages or pass-through income), and increases favorability based on the type of pass-through business. The 20 percent deduction applies only to qualified business income, creating an incentive for high-income earners to reclassify labor wages as business income to maximize the tax benefit. Among pass-through businesses, the 199A deduction also creates a preference for certain economic activities, differentiating between specified service businesses and non-service businesses, with a limited benefit for the former.

Expanding preferential treatment for pass-through income raises enforcement risk by increasing the value of income reclassification in the pass-through sector, where reporting is already weak. Pass-through businesses have higher rates of non-compliance than C corporations, in part because they are subject to less third-party information reporting and little to no withholding, both of which are linked to lower compliance rates.³⁹ This especially exacerbates underreporting noncompliance, which makes up 80 percent of the tax gap.⁴⁰ While wage income is subject to both withholding and third-party reporting, pass-through income is generally self-reported through Form 1040, though for partnership and S corporation income this can be cross-checked against entity-level information reporting, such as Form 1120S K-1 for S corporation income.

IRS tax gap estimates show that noncompliance rates for partnerships and S corporations are approximately equal to the gross tax gap percentage (18 percent), but noncompliance exceeds 50 percent for sole proprietorship, farm, and rent and royalty income.⁴¹ By expanding tax benefits and adding filing complexity in these high-noncompliance categories, the Section 199A deduction increases both avoidance incentives and enforcement risk.

Tax filing for a pass-through entity is complex and incurs high compliance costs. The form used for reporting partnership income, Schedule K-1, is considered especially complex. Filing rules and additional forms can lead to income mismatches between tax forms, filing errors, and delays.⁴²

36 David S. Mitchell, "Factsheet: What the research says about taxing pass-through businesses," Washington Center for Equitable Growth, Apr. 30, 2024, <https://equitablegrowth.org/factsheet-what-the-research-says-about-taxing-pass-through-businesses/>.

37 Emily Cauble and Gregg D. Polsky, "The Problem of Abusive Related-Partner Allocations," *Florida Tax Review* 16:9 (Nov. 17, 2014): 479-518, <https://ssrn.com/abstract=2526464>.

38 Alex Muresianu, "How Biden's Corporate Tax Increases Could Make Tax Enforcement Harder," Tax Foundation, May 18, 2021, <https://taxfoundation.org/blog/biden-tax-enforcement/>.

39 In the most recent year of data (2022), the IRS estimates a tax gap of \$50 billion for corporate income tax, mainly from underreporting (\$44 billion), and a \$194 tax gap due to underreporting for individual income tax on pass-through business income. The underreporting tax gap for pass-through business income is further broken down, indicating most of that gap (\$117 billion) is from nonfarm sole proprietor income, with \$42 billion from partnership, S corporation, estate and trust income, \$28 billion from rents and royalties, and \$7 billion from farm income. See: Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Projections for Tax Year 2022*, Publication 5869 (Rev. 10-2024), October 2024, <https://www.irs.gov/pub/irs-pdf/p5869.pdf>.

40 Natasha Sarin and Lawrence H. Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," NBER Working Paper No. 26475 (November 2019), <https://www.nber.org/papers/w26475>.

41 Andrew Johns and Joel Slemrod, "The Distribution of Income Tax Noncompliance," *National Tax Journal* 63:3 (September 2010): 397-418, <https://webuser.bus.umich.edu/jslemrod/Article%2001-Slemrod.pdf>.

42 Government Accountability Office, "Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance," Government Accountability Office Report GAO-14-453, May 2014, <https://www.gao.gov/assets/d14453.pdf>.

Tax Foundation research based on IRS estimates of the paperwork burden indicates compliance costs for the federal tax code overall exceed \$536 billion annually (nearly 1.8 percent of GDP) as of 2025, and most of those costs result from various complex business filings, both for pass-through businesses and C corporations.⁴³

Complying with the main individual income tax return (Form 1040) costs about \$147 billion, with more than half of that cost coming from returns reporting pass-through business income.⁴⁴ Complying with business income tax returns, including for C corporations (Form 1120) and pass-through entities (primarily Form 1120-S for S corporations and Form 1065 for partnerships) costs \$126 billion, with about \$96 billion attributable to pass-through business returns.⁴⁵

In addition, pass-through owners who claim the Section 199A deduction must fill out another form, potentially involving multiple schedules and more than 24 hours to complete per filer, in aggregate, resulting in more than \$19 billion of compliance costs.⁴⁶ Filing for depreciation and quarterly reporting adds more than \$73 billion of compliance costs for pass-through businesses and C corporations.

The US pass-through tax system is notably more complex and pervasive than that of most other countries' partnership or transparent entity regimes. For example, OECD countries—including the UK, Canada, and Australia—reduce the need for individualized reporting by placing a greater emphasis on entity-level filing.⁴⁷ Germany operates a transparent partnership system wherein the primary filing responsibility falls on the partnership itself, reducing the compliance burden for individual partners.⁴⁸ Estonia and Latvia replace pass-through taxation altogether with simpler corporate tax structures that apply broadly to all business types, taxing only profits that are distributed to owners.⁴⁹

Options for Reform

Although the OBBBA created a degree of stability in the US tax code by making many of the provisions permanent, the current tax treatment of pass-through businesses leaves much to be desired. Reforms should focus on reducing the complexity and non-neutrality of the current rules. Along these lines, several proposals have been put forward that would incrementally reform the current treatment, keeping a special

43 Sam Cluggish and Alex Muresianu, "Tax Complexity Now Costs the US Economy over \$536 Billion Annually," Tax Foundation, Aug. 27, 2025, <https://taxfoundation.org/data/all/federal/irs-compliance-complexity-tax-costs/>; see also: William McBride, "Results of a Survey Measuring Business Tax Compliance Costs," Tax Foundation, Sep. 4, 2024, <https://taxfoundation.org/research/all/federal/us-business-tax-compliance-costs-survey/>.

44 While the IRS estimates it takes 12 hours on average to comply with Form 1040, filers with pass-through business income average 21 hours, while nonbusiness filers average 8 hours. In addition, the IRS estimates out-of-pocket costs average \$610 for filers with pass-through business income versus \$160 for nonbusiness filers. Based on these estimates, about 55 percent of the aggregate compliance costs for individual income tax returns are from returns reporting pass-through business income. See: IRS, "1040 (2025) Instructions," <https://www.irs.gov/instructions/i1040gi>.

45 The portion of compliance costs attributable to pass-through businesses is based on the average monetized burden the IRS estimates by business form, along with the number of returns in each category. The IRS estimates also indicate significant variation by firm size. See: IRS, "Instructions for Form 1120 (2025)," <https://www.irs.gov/instructions/i1120>.

46 IRS, "Instructions for Form 8995-A (2025)," <https://www.irs.gov/instructions/i8995a>; Scott Hodge and Claire Rock, "Tax Complexity Now Costs the US Economy Over \$546 Billion Annually," Tax Foundation, Aug. 6, 2024, <https://taxfoundation.org/data/all/federal/irs-tax-compliance-costs/>; Sam Cluggish and Alex Muresianu, "Tax Complexity Now Costs the US Economy over \$536 Billion Annually," Tax Foundation, Aug. 27, 2025, <https://taxfoundation.org/data/all/federal/irs-compliance-complexity-tax-costs/>.

47 Wojciech Kopczuk, "The messy boundary between pass-through and corporate taxation," *Oxford Review of Economic Policy* 39:3 (Autumn 2023): 451-459, <https://doi.org/10.1093/oxrep/grad034>.

48 This treatment is outlined in *Gesetz zur Förderung geordneter Kreditzweitmärkte und zur Umsetzung der Richtlinie (EU) 2021/2167 über Kreditdienstleister und Kreditkäufer sowie zur Änderung weiterer finanzrechtlicher Bestimmungen (Kreditzweitmärkteförderungs-gesetz)* Artikel 25, Dec. 29, 2023, <https://www.recht.bund.de/bgb/1/2023/411/VO>. This regulation is outlined in English by Christian Röpke and Simon-Alexander Kiene, "Tax Legislation Update on Partnership Filing Obligations in Germany," Alvarez & Marsal, Feb. 28, 2024, <https://www.alvarezandmarsal.com/insights/tax-legislation-update-partnership-filing-obligations-germany>.

49 William McBride, Huaqun Li, Garrett Watson, Alex Durante, Erica York, and Alex Muresianu, "A Tax Reform Plan for Growth and Opportunity: Details and Analysis," Tax Foundation, Jun. 29, 2023, <https://taxfoundation.org/research/all/federal/growth-opportunity-us-tax-reform-plan/>; William McBride, Garrett Watson, and Erica York, "Taxing Distributed Profits Makes Business Taxation Simple and Efficient," Tax Foundation, Mar. 1, 2023, <https://taxfoundation.org/blog/distributed-profits-tax-us-businesses/>.

deduction in place for pass-through businesses but streamlining it in several ways. More comprehensive reforms uproot the corporate and individual income tax rules and integrate them to largely eliminate the problem of double taxation of corporate income.

Starting with incremental reforms, Scott Greenberg, while an analyst at the Tax Foundation, proposed altering the pass-through deduction to reduce the potential for abuse and the need for line-drawing between eligible and ineligible industries while improving the economic impact of the provision.⁵⁰ This would be achieved by replacing the current limits on the deduction with a new limit based on how much businesses have invested and whether the investment costs have already been deducted.

Greenberg's proposal would allow households to choose either: (a) a simplified deduction of 100 percent of qualifying pass-through business income up to a fixed dollar amount, or (b) a 20 percent deduction of qualifying pass-through business income limited based on the "adjusted basis of business property," which is essentially the investment costs that have not already been deducted. The adjusted basis multiplied by a set rate of return (perhaps 5.5 percent) would serve as a limit on how much business income would be eligible for the pass-through deduction in the subsequent tax year. This new "capital investment" limit would apply to all categories of pass-through business income, including REIT dividends, income from publicly traded partnerships, and cooperative dividends. To prevent abuse, the adjusted basis excludes used assets recently acquired by pass-through businesses.

Greenberg's proposal is less beneficial now that the OBBBA has increased business expensing. Businesses would benefit to the extent they invest in assets that remain ineligible for expensing, such as land, inventories, and certain types of structures.

Senator Ron Wyden (D-OR) has proposed several pieces of legislation that would place additional limits on the pass-through deduction and the partnership business form. In 2021, Wyden sponsored legislation that would phase out the pass-through deduction above \$400,000 of taxable income (with a full phaseout at \$500,000), eliminate the limitations for specified service trade or businesses, disallow the deduction for married taxpayers filing separately and for estates and trusts, and add new limitations for agricultural co-ops and REITs. We estimated this proposal would raise about \$30 billion per year, mainly from high-income earners, reducing the after-tax income of the top quintile of earners by 0.3 percent.⁵¹ While raising substantial revenue, the proposal would increase marginal tax rates without simplifying the deduction's complexity.

In 2021 and again in 2025, Wyden sponsored legislation that would restrict the flexibility of partnerships regarding tax, limiting the ability of partners to shift income, losses, debt, and tax to other partners. The legislation would also expand the base of the 3.8 percent net investment income tax (NIIT) to include active pass-through business income. Wyden argues these changes would simplify the partnership regime, allowing the IRS to better enforce the rules and raise "more than \$727 billion."⁵² Much of that increase

50 Scott Greenberg, "Reforming the Pass-Through Deduction," Tax Foundation, Jun. 21, 2018, <https://taxfoundation.org/research/all/federal/reforming-pass-through-deduction-199a/>.

51 The analysis does not account for smaller changes in the bill, including new limitations for agricultural co-ops and REITs. See: Alex Durante, "Analysis of Senator Wyden's Pass-through Deduction Proposal," Tax Foundation, Aug. 17, 2021, <https://taxfoundation.org/blog/wyden-199a-pass-through-deduction/>.

52 US Senate Committee on Finance, "Wyden Unveils Proposal to Close Loopholes Allowing Wealthy Investors, Mega-Corporations to Use Partnerships to Avoid Paying Tax," Sep. 10, 2021, <https://www.finance.senate.gov/ranking-members-news/wyden-unveils-bills-closing-loopholes-allowing-wealthy-investors-and-mega-corporations-to-abuse-partnerships-to-dodge-taxes>; US Senate Committee on Finance, "Wyden Unveils Bills Closing Loopholes Allowing Wealthy Investors and Mega-Corporations to Abuse Partnerships to Dodge Taxes," Jun. 17, 2025, <https://www.finance.senate.gov/ranking-members-news/wyden-unveils-bills-closing-loopholes-allowing-wealthy-investors-and-mega-corporations-to-abuse-partnerships-to-dodge-taxes>; For a summary and discussion of Wyden's proposals, see: Monte Jackal, "New Senate Partnership Draft is a Good Start," Tax Notes, Jun. 27, 2025, <https://www.taxnotes.com/tax-notes-today-federal/partnerships/new-senate-partnership-tax-reform-draft-good-start/2025/06/27/7sl8c>.

in revenue comes from expanding the base of the NIIT to include active pass-through business income, which Vice President Kamala Harris also included in her campaign proposals when running for president in 2024. At that time, we estimated the NIIT expansion would raise \$258 billion over a decade and reduce long-run GDP by 0.2 percent.⁵³

Several other minor changes would improve the pass-through deduction along key dimensions. The current rules exempt REITs and publicly traded partnerships from the wage or wage/capital limitation. Eliminating this exemption, or disallowing the deduction for REITs and publicly traded partnerships, would simplify and improve the neutrality of the provision and reduce the fiscal cost. To better focus the provision on the problem of high marginal tax rates and avoid worsening the problem by phasing out the tax benefits for higher-income earners, the deduction could be further limited to apply only to eligible business income above a certain threshold, such as the beginning of the 32 percent tax bracket. This would also allow the rules to be simplified by applying the current high-income limitations to all who claim the deduction, regardless of income.

Economist Doug Holtz-Eakin has proposed another alternative to the pass-through deduction that would aim to equate the tax treatment of pass-through businesses and corporations by applying the same effective marginal tax rate on the return to capital invested in the corporate and pass-through sectors.⁵⁴ This would be achieved by allowing a portion of pass-through business income, according to a deemed capital share, to be taxed preferentially as qualified dividends. Our initial analysis suggests the proposal would cut the fiscal and economic effects of the pass-through deduction roughly in half.

A more drastic reform—full elimination of the pass-through deduction—would raise revenue, simplify the code, and improve neutrality but come with a significant economic drag due to higher marginal tax rates. We estimate eliminating the pass-through deduction would raise about \$740 billion over the next decade, measured on a conventional basis, but would reduce GDP by 0.5 percent over the long run, resulting in a smaller net revenue increase of \$429 billion measured on a dynamic basis over the next decade.⁵⁵ Pairing elimination of the deduction with a reduction in individual tax rates that is approximately neutral with respect to revenue and the distribution of the tax burden would largely offset the marginal tax rate effects of eliminating the pass-through deduction. The combination would also streamline the tax code, reducing compliance costs directly by about \$20 billion annually by eliminating the pass-through deduction.⁵⁶ Further pairing with full expensing, which is only available for new investment, would help offset the economic drag and boost growth without necessarily adding to deficits.

True “parity” or neutrality across business forms would require a more fundamental reform. The main distinction to be addressed is double taxation of corporate income resulting from the corporate income tax and additional taxes on corporate income distributed to shareholders in the form of dividends, capital

53 William McBride, Erica York, Garrett Watson, and Alex Muresianu, “Kamala Harris Tax Plan Ideas: Details and Analysis,” Tax Foundation, Oct. 16, 2024, <https://taxfoundation.org/research/all/federal/kamala-harris-tax-plan-2024/>.

54 Doug Holtz-Eakin, “A Modest Proposal for 2025 Tax Reform,” American Action Forum, Oct. 7, 2024, <https://www.americanactionforum.org/daily-dish/a-modest-proposal-for-2025-tax-reform/>.

55 Garrett Watson, Huaqun Li, Erica York, Alex Muresianu, Alan Cole, Peter Van Ness, and Alex Durante, “One Big Beautiful Bill Act Tax Policies: Details and Analysis,” Tax Foundation, Jul. 4, 2025, <https://taxfoundation.org/research/all/federal/big-beautiful-bill-senate-gop-tax-plan/>.

56 Sam Cluggish and Alex Muresianu, “Tax Complexity Now Costs the US Economy over \$536 Billion Annually,” Tax Foundation, Aug. 27, 2025, <https://taxfoundation.org/data/all/federal/irs-compliance-complexity-tax-costs/>.

gains, and share repurchases—an extra layer of tax not faced by pass-through businesses.⁵⁷ To the extent this distinction can be flattened or neutralized across business forms, the tax advantages or disadvantages of one form versus another will largely disappear.

Many other countries address the double taxation problem by lowering or eliminating at least one layer of tax. For instance, OECD and European countries on average have significantly lower tax rates on dividends and capital gains compared to the US, with several countries exempting either dividends or capital gains from taxation.⁵⁸ In addition, OECD and European countries on average have a lower corporate tax rate than the US, even after the TCJA substantially reduced the US federal corporate tax rate.⁵⁹

A few countries have more explicitly integrated their corporate and individual income taxes to avoid double taxation. For instance, Estonia and Latvia tax distributed profits only once, at the business entity level, avoiding tax on retained earnings or on dividends, resulting in an extraordinarily simple business income tax system that applies to all businesses.⁶⁰ These countries retain a tax on capital gains. Australia and several other countries use a credit imputation system to integrate their corporate and individual income taxes, so that the shareholder is given a tax credit to offset corporate income taxes paid at the entity level.⁶¹ Another approach that has been considered in the US is to allow corporations to deduct dividends paid.⁶²

Conclusion

The growth and extraordinary size of the US pass-through business sector have many implications. One is that simple comparisons across countries can be misleading; for instance, comparing corporate or individual income tax revenue misses the fact that roughly half of US business income is not subject to the corporate tax but instead is subject to individual income tax.⁶³ Another misconception arises when studying changes in income inequality without fully accounting for the changing composition of US business income.

A major implication is that reforming the tax treatment of US pass-through businesses has the potential to greatly reduce taxpayer compliance costs while improving economic growth. The current tax treatment is the result of decades of alterations, special provisions, and a splintering of the rules that apply to the various business forms. A coherent business tax system that is simple, neutral across business forms,

57 The Inflation Reduction Act of 2022 worsened the double taxation of corporate income by introducing a 1 percent tax on share repurchases and a corporate alternative minimum tax. See: Alex Durante, Cody Kallen, Huaqun Li, William McBride, and Garrett Watson, "Details and Analysis of the Inflation Reduction Act Tax Provisions," Tax Foundation, Aug. 10, 2022, <https://taxfoundation.org/research/all/federal/inflation-reduction-act/>.

58 Alex Mengden, "Savings and Investment: The Tax Treatment of Retirement Accounts in OECD and EU Countries," Tax Foundation, Oct. 1, 2025, <https://taxfoundation.org/research/all/global/retirement-savings-investment-tax-oecd-eu/>; Cristina Enache, "Integrated Tax Rates on Corporate Income in Europe, 2025," Tax Foundation, Nov. 18, 2025, <https://taxfoundation.org/data/all/eu/integrated-tax-rates-corporate-income-europe/>.

59 Cristina Enache, "Corporate Tax Rates Around the World, 2025," Tax Foundation, Dec. 17, 2025, <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2025/>.

60 William McBride, Huaqun Li, Garrett Watson, Alex Durante, Erica York, and Alex Muresianu, "A Tax Reform Plan for Growth and Opportunity: Details and Analysis," Tax Foundation, Jun. 29, 2023, <https://taxfoundation.org/research/all/federal/growth-opportunity-us-tax-reform-plan/>; William McBride, Garrett Watson, and Erica York, "Taxing Distributed Profits Makes Business Taxation Simple and Efficient," Tax Foundation, Mar. 1, 2023, <https://taxfoundation.org/blog/distributed-profits-tax-us-businesses/>.

61 Elke Asen, "Double Taxation of Corporate Income in the United States and the OECD," Tax Foundation, Jan. 13, 2021, <https://taxfoundation.org/research/all/federal/double-taxation-of-corporate-income/>; Kyle Pomerleau, "Eliminating Double Taxation through Corporate Integration," Tax Foundation, Feb. 23, 2015, <https://taxfoundation.org/research/all/federal/eliminating-double-taxation-through-corporate-integration/>.

62 Scott Greenberg, "Corporate Integration: An Important Component of Tax Reform," Tax Foundation, Apr. 21, 2016, <https://taxfoundation.org/research/all/federal/corporate-integration-important-component-tax-reform/>; Scott Greenberg, "What is Corporate Integration?," Tax Foundation, May 16, 2016, <https://taxfoundation.org/blog/what-corporate-integration/>.

63 Kyle Pomerleau and Donald Schneider, "The Biden Administration's Corporate Tax Statistic is Misleading," Bloomberg Tax, Apr. 16, 2021, <https://news.bloombergtax.com/daily-tax-report/the-biden-administrations-corporate-tax-statistic-is-misleading>.

and pro-growth requires fundamental reform. A key goal should be a more fully integrated corporate and individual income tax code, such as those found in Estonia and Latvia, which would combine the organizational and financing advantages of C corporations with the neutral tax treatment of pass-throughs.