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CONTACT:

Chris Chaney 703.739.8162

cchaney@napeo.org

Treasury and IRS Guidance on Section 199A Pass-Through Tax Deduction a Victory for PEO Industry

NAPEO Grassroots Lobbying Campaign Results in Formal Guidance Clarifying that Being a PEO Client Does Not Affect the Eligibility of a Pass-Through Entity for the 20% Tax Deduction

August 8, 2018, Arlington, Virginia— A six month grassroots lobbying campaign by the National Association of Professional Employer Organizations (NAPEO) and its member companies culminated today with the release of formal guidance by the Treasury Department and IRS clarifying that being a client of a PEO does not affect the eligibility of pass-through entities for the 20 percent tax deduction in Section 199A of the tax code.

“The guidance released today by Treasury and IRS provides much needed clarity for PEOs and their clients, and represents a huge victory for the PEO industry,” said Thom Stohler, vice president of federal government affairs for NAPEO.

The tax reform bill passed at the end of 2017 created a section in the tax code which contained a new tax deduction—Section 199A—allowing taxpayers to deduct the “combined qualified business income amount” from a pass-through entity in an amount up to 20 percent of the taxpayer’s taxable income.

Some accountants had erroneously advised their clients that are pass-through entities that a PEO relationship might jeopardize their eligibility for this new 20 percent tax deduction. Today’s announcement provides the needed clarification that being a PEO client does not affect the eligibility of a pass-through entity to claim the Section 199A deduction.

“Today’s action is a big victory for the growing PEO industry. We are grateful to Treasury and the IRS for this important clarification.” said Stohler.

About NAPEO

The National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry™ and represents about 85 percent of the industry’s estimated \$136-\$152 billion in gross revenues. NAPEO has some 250 PEO members that provide payroll, benefits, and other HR services to between 156,000 to 180,000 businesses employing 2.7 and 3.4 million people. An additional 200 companies that provide services to PEOs are associate members of NAPEO. For more information, please visit www.napeo.org.