The Impact of IRC § 199A on the Value of Non-Publicly Traded Business Organizations

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The objective of this paper is to assess the influence of tax reductions from the Tax Cuts and Jobs Act ("TCJA"), on the firm value of non-publicly traded business organizations. The TCJA provided a reduction in the graduated corporate tax from a top rate of 35% to a flat 21%, while simultaneously providing up to a 20% deduction of taxable income produced by passthrough entities under Internal Revenue Code ("IRC") § 199A. While the overall value of non-publicly traded businesses increased after the TCJA, we find somewhat mixed results.

Keywords: IRC § 199A, firm value, passthrough, closely held

INTRODUCTION

In December of 2017, P.L. 115-97, informally known as the Tax Cuts and Jobs Act ("TCJA"), was signed into law. The TCJA provided a reduction in corporate tax from a top rate of 35% to a flat rate of 21%. To avoid a crush of businesses converting to the corporate form, the TCJA included the qualified business income deduction under IRC § 199A. The IRC § 199A deduction was intended to provide a comparable benefit to passthrough entities (Congressional Research Services, 2024).

Unfortunately, while the corporate tax rate reduction was straightforward and clear, the IRC § 199A deduction, which offered up to a 20% deduction from taxable income produced by businesses operated as sole proprietorships, S corporations, and all forms of partnerships, was not. IRC § 199A included a complex structure of limitations that reduced the potential benefit for high-income earners and even for certain types of trade or business operations. As a result, taxpayer perception of the IRC § 199A deduction was somewhat unclear, leading to the question: did taxpayers recognize the IRC § 199A deduction as a comparable benefit for pass-through entities?

This paper evaluates the effectiveness of IRC § 199A deduction in terms of accomplishing the legislative branch's objective of providing a benefit comparable to the corporate tax rate reduction. Using statistical subgroup regression, we evaluate the pre-TCJA and post-TCJA firm value of similar C corporation and passthrough entities.

This study offers three contributions to our understanding of the impact of the TCJA on the value of non-publicly traded businesses. First, this research demonstrates that the sweeping tax changes of the TCJA affected firm value of these business organizations. Second, the analysis examines the effect of the tax

reductions on the subgroups of non-publicly traded businesses, including C and S corporations, sole proprietorships, and all forms of partnerships. And, finally, the study evaluates the effectiveness of the IRC § 199A qualified business income deduction as comparable benefit to the reduction in corporate tax rates.

This article is organized as follows: first, a discussion of the business tax reductions of the TCJA and valuation methodology. Next, we present a review of the literature addressing these issues. Then, there is a discussion of the data and hypotheses development followed by the results of our study. Finally, we conclude with a discussion of our findings and its implications.

BACKGROUND

Tax Cuts and Jobs Act

In December of 2017, P.L. 115-97, informally known as the Tax Cuts and Jobs Act ("TCJA"), was signed into law. This Act made significant changes to the corporate income tax rates and to the tax due on income from passthrough entities ("PTE"). The graduated corporate tax rates were reduced from a top rate of 35% to a flat rate of 21% to make U.S. based corporations more competitive on the world stage. With a 21% federal rate and the average state corporate rate, income taxes on U.S. corporations were similar to that of most other developed countries.

Unlike C corporations, passthrough entities are generally not subject to an entity-level income tax. Instead, the owners of passthrough entities are taxed on their respective share of income at their individual tax rates which could be as high as 37%. To avoid a stampede of passthrough entities converting to the corporate form, the TCJA provided a deduction for business income from passthrough entities. This deduction, referred to as the "Qualified Business Income Deduction" ("QBID") and codified under IRC § 199A, provided up to a 20% deduction of business income passed through from sole proprietorships, S corporations, trusts and estates, and all forms of partnerships. However, since passthrough entities are not taxed, the deduction occurs at the owner level. In addition, a series of complex rules regarding which income is "qualified," limitations on the applicability for higher-income individuals, and limitations on the type of business that qualified for the tax reduction benefit, all served to reduce or even eliminate the deduction. Assessing the applicability of the IRC § 199A deduction requires access to both the entity operations and the individual owner tax characteristics. Therefore, the IRC § 199A qualified business income deduction was substantially less transparent than the corporate tax rate reduction.

The IRC § 199A deduction is limited to the lesser of 20% of the taxpayer's qualified business income or 20% of the taxpayer's modified taxable income. Qualified business income is the net amount of income, gain, deduction, and loss from any U.S. trade or business. Modified taxable income is, generally, taxable income before net capital gains. Certain investment type items are excluded from qualified business income. These items include short- and long-term capital gains and losses, dividends, and interest income. Additionally, excluded are reasonable compensation paid to a taxpayer for services rendered and guaranteed payments made to a partner for services (Bailey, 2018).

Two additional limitations may apply to further reduce the amount of the deduction. High-income taxpayers are limited to the greater of either 50% of wages paid by the passthrough entity or 25% of wages paid plus 2.5% of the cost of qualified property. Qualified property is, generally, tangible, deductible property that is used in the qualified business and is still within its depreciable life. This high-income limitation begins to phase-in when the taxpayer's income exceeds $383,900 and is fully phased-in when income exceeds $483,900 for joint filers in 2024. A second limitation applies when the business is a "specified service business" ("SSB"). For SSB passthrough entities, QBID is completely eliminated when taxable income exceeds $483,900 for joint filers in 2024. SSBs are businesses involving the performance of services in the fields of health, law, engineering, consulting, financial services, and any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees and/or owners (IRC § 1202(e)(3)(A)).

During the analysis period of this paper, the IRC § 199A deduction was set to expire on December 31, 2025. However, on July 4, 2025, the One Big Beautiful Bill Act, P.L. 119-21, ("OBBBA") was signed into

law. This Act made the IRC § 199A deduction permanent. The corporate tax rate reduction under the TCJA was made permanent upon enactment.

Although not directly addressed in this study, several other facets of the TCJA impacted business taxation. First, a limitation on the amount of active passthrough business losses that business owners could deduct against other income was limited to $500,000 for joint filers and $250,000 for others. This loss limitation, which previously expired at the end of 2028, was made permanent by the OBBBA. Second, the immediate expensing of business asset purchases was expanded to 100% for qualified property from 2018 through 2022, followed by a 20% reduction in the expensing rate each year thereafter, until it was completely phased out at the end of 2026. However, the OBBBA also made 100% immediate expensing permanent. And, finally, the reduced marginal rates for most individuals were set to expire at the end of 2025 but are now permanent under the OBBBA.

Firm Value

Valuation of non-publicly traded businesses is often referred to as both an art and a science. Without public markets to use as a reference, these business organizations require application of one or more of several widely accepted valuation approaches, as well as professional judgement, to arrive at an estimate of value. However, in all cases, the value of the business is fundamentally based on an estimate of the future benefits of ownership (Turrell & Harrison, 2018).

Revenue Ruling 59-60 (U.S. Internal Revenue Service, 1959) provides the framework for valuation of non-publicly traded businesses. This Ruling defines fair market value as "the price at which the property would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of the relevant facts." Fair market value is estimated by one or more of three recognized valuation approaches: market, income, or asset.

The market approach relies on comparing the subject business to similar businesses that have been sold (Russo & DiGabriele, 2018). A business is considered "similar" when it is of the same size based on annual sales and it operates within the same industry. Identifying a representative sample of sale prices for similar businesses provides evidence of the subject company's value.

The income approach is based on the concept that a business is worth the net present value of its future benefits (Howitt, 1993). The future benefits are generally assessed by a cash flow or earnings stream. Selection of the benefit stream often depends on the nature of the business. The selected benefit stream is projected into the future for a finite number of years. At the end of the projection period, a terminal value is estimated. The terminal value represents the benefits beyond the discrete projection period.

The asset approach is used in asset-intensive businesses, where the assets, in large part, determine the business's value. For example, a real estate holding company would be an ideal candidate for this valuation approach. The appraised value of the assets is reduced by any outstanding liabilities, resulting in the net business value. The asset approach also includes the excess earnings method which combines the asset approach with the income approach. In this hybrid method, described in Revenue Ruling 68-609 (U.S. Internal Revenue Service, 1968), a goodwill component of the value is determined by assessing the business's income in excess of the expected return on its assets.

In application of each of these approaches, the derived value of the subject company is based on the value of the future benefits of ownership (Howitt, 1993). Accordingly, a reduction in business expenses is expected to produce an increase in cash flow and earnings, resulting in a higher firm value.

LITERATURE REVIEW

The influence of income taxes on a firm's value has been frequently examined in the literature (Desai & Dharmapala, 2009; Cloyd et al., 2003; Swenson, 1999; Hertz et al., 2009). The traditional theory posits that firm value is increased as cash flow or earnings increase (Desai & Dharmapala, 2009). The implication is that reduced tax costs will result in higher firm value.

It is generally recognized that one of the economic objectives of Congress is to minimize the effect of income taxes on the choice of entity for a business. However, numerous complexities make this a difficult goal (Greenberg, 2017). One important roadblock is the distortion caused by the corporate double tax, which favors PTEs that avoid this issue by having a single level of tax at the owner level (Repetti, 2023). Even if the tax rate on income from PTEs was the same as the C corporation rate (i.e., "rate parity"), the corporate double tax results in shareholders of C corporations being subject to significantly higher taxes than owners of PTEs (Greenberg, 2017).

Researchers have assessed the impact of the TCJA tax cuts on the firm value of public companies. Haug and Ueland (2020) examined the effect of the tax cuts on valuations of U.S. target firms in public acquisition deals. This study relied on U.S. target firms that public companies acquired as evidence supporting the findings that the TCJA tax cuts increased U.S. target firm values by an average of 32%.

Edwards and Hutchens (2024) examined the influence of the TCJA tax cuts on the pricing of initial public offerings ("IPOs"). This study found that, contrary to the established theory that changes in tax rates are incorporated well in advance of enactment for existing public equities, IPO valuation does not reflect any capitalization of expected benefits, making their assessment of the influence of the TCJA tax cuts more pronounced. The study found evidence of an increase in IPO offering value following enactment of the TCJA and, interestingly, lower valuations for IPOs "completed during the period of anticipated tax reform." Evidently, in addition to not reflecting capitalization of expected benefits from tax reform, the uncertainty associated with the reform process produced lower valuations.

Wagner et al., (2020) also examined investor reactions to the TCJA tax reductions using market prices of public company stock. The effects of the recurring impact from the tax reductions were considered, along with the nonrecurring influences related to other provisions of the TCJA, including the remeasurement of deferred assets and liabilities using the new lower rates and, for some corporations, a one-time repatriation of earnings tax. The study found the recurring impact to be a relatively straightforward calculation while the non-recurring factors were much more complicated to estimate. Overall, Wagner et al., (2020) found that the complexities of the TCJA tax changes drove markets to move unevenly, while investors attempted to understand the implications of the tax reductions. Generally, high-tax firms reported increases in market capitalization, while low-tax firms exhibited mixed effects.

Repetti (2023) argued that the TCJA did not achieve the goal of achieving parity between C corporations and PTEs. In large part, this conclusion was based on the double tax regime of C corporations that still imposes a penalty on that entity form even after the significant tax rate reductions of the TCJA. Repetti focused on three changes made by the TCJA: (1) reduction of the corporate income tax rate to 21%, (2) reduction of the top individual rate to 37%, and (3) allowance of up to a 20% deduction for qualified business income (IRC § 199A). Although the tax rate reductions tended to offset the double tax penalty, the complexity of the IRC § 199A deduction made it difficult for investors to assess and value the impact on firm value. In fact, Repetti stated that tax planning for choice of entity was actually complicated by IRC § 199A and the tax rate reductions.

Very little research has focused on the impact of IRC § 199A on the value of non-publicly traded firms, despite this tax benefit being enacted to provide income tax relief to owners of PTEs that did not benefit from the 21% corporate tax rate (Cooper, 2021). Accordingly, there is a distinct literature gap related to the impact of this deduction on the value of non-publicly traded firms, particularly with respect to its effect on the various entity forms available to business owners.

HYPOTHESES DEVELOPMENT AND RESEARCH DESIGN

With the enactment of the TCJA tax cuts, we expect non-publicly traded business organizations to experience an increase in entity value when compared to pre-TCJA valuations. Using actual sale transactions of these businesses as a proxy for firm value, our results indicate an increase in value compared to pre-TCJA transactions. However, this overall conclusion is further explored using statistical subgroup analysis to provide insight into the implications of the TCJA on the value of various organizational forms, including C corporations, S corporations, sole proprietorships, and all forms of partnerships.

It is well known that the value of a business depends on the expectations of future cash flows and the risk of achieving those cash flows (Turrell & Harrison, 2018). Accordingly, a reduction in tax expense should result in an increase to the value of a business. With the graduated corporate income tax being reduced from a top rate of 35% to a flat 21%, and virtually all passthrough entities potentially benefitting from the IRC § 199A deduction, both C corporations and PTEs are expected to report an increase in firm value attributable to the TCJA resulting in the following:

H1*: After controlling for other firm and non-firm characteristics, all non-publicly traded business organizations will report higher firm value in post-TCJA years when compared to pre-TCJA years.*

Since QBID is available to all passthrough entities—S corporations, sole proprietorships, and all forms of partnerships—the post-TCJA increase in firm value should be equally evident in all PTEs:

H2*: All passthrough entities will have similar increases in post-TCJA firm value when compared to pre-TCJA value after controlling for other firm and non-firm characteristics.*

Due to the rate reduction for the corporate income tax, C corporations are expected to benefit from the TCJA tax reduction resulting in higher firm value in the post-TCJA years when compared to the pre-TCJA years:

H3*: Non-publicly traded C corporations will report higher firm valuations in post-TCJA years than in pre-TCJA years while controlling for other firm and non-firm characteristics.*

Owners of passthrough entities enjoy up to a 20% deduction of passthrough income, although it is mired in a confusing array of tax rules that tend to mask the benefits provided by IRC § 199A. Further, the tax benefit occurs at the owner level, not at the entity level. Based on these factors, we expect a firm value increase in S corporations, sole proprietorships, and all forms of partnerships in the post-TCJA years, but not as substantial as the value increase of C corporations.

H4*: Passthrough entities will have a higher firm value in the post-TCJA years, but not as substantial an increase in value as C corporations, after controlling for other firm and non-firm characteristics.*

The following regression model was used to test the hypotheses. Refer to Table 1 for a definition of variables. The actual sales price of the business is used as a proxy for firm value.

$$Ln\_FirmVal = \beta_0 + \beta_1 PostTCJA + \beta_2 Ln\_Sales + \beta_3 CCorp + \beta_4 PubAcq + \beta_5 InflRate + \beta_6 Ind + \epsilon_{iy} \quad (1)$$

The dependent variable, *FirmVal,* is the transaction price of sales of non-publicly traded businesses. *Sales* represents the annual sales of the target business organization. Both *FirmVal* and *Sales* exhibited large positive skew and kurtosis due to a number of very high amounts. To correct for this, the data for these variables were transformed to natural logarithms (Cooper, 2021). *Post-TCJA is a dummy variable, where 1 equals post-TCJA and 0* equals pre-TCJA. Based on prior research, C corporations have been shown to produce higher transaction prices (i.e., firm value) than other entity forms. Thus, the *CCorp* variable is included with a setting of 1 for C corporations, and 0 for all other entity forms to control for this difference. The market participant has also been shown to affect transaction pricing (Covrig and McConaugy, 2015; Cooper, 2021). Accordingly, *PubAcq* is used to control for public versus private acquirer. Other control variables include the change in inflation rates and the industry of the target business.

This regression model was run with all transactions, and with each statistical subgroup individually to arrive at our conclusions.

TABLE 1
VARIABLE DEFINITIONS

Firm Value Variables	
Ln_FirmVal	The natural log of the sale transaction price of the business
PostTCJA	Indicator variable where a post-TCJA transaction = 1 and pre-TCJA = 0
Ln_Sales	Annual sales of target business transformed to natural log
CCorp	Indicator variable where C corporation = 1 and passthrough entities = 0
PubAcq	Indicator variable where public acquirer = 1 and private acquirer = 0
Control Variables	
InflRate	Change in rate of inflation by year
Ind	Industry of target business organization

DATA

Data for this paper are drawn from a subscription-only source called DealStats, which provides information on the sales prices of closely held business transactions since 1990. All transactions represent a 100% sale of the equity of the business whether the sale is of the stock or assets. The data has been compiled from information available through the Securities and Exchange Commission, merger and acquisition data from advisors and business brokers, as well as other intermediaries. The data includes a wide range of information on each transaction, including the date of sale, transaction pricing, notes on transaction details, target entity type, market participant (buyer) entity type, and whether the transaction was a sale of stock or assets. All data is reviewed by DealStats personnel before being added to the dataset. DealStats is likely the most comprehensive record of sales of non-publicly traded businesses, and as such, provides an opportunity for researchers to study and contribute to the body of knowledge on these non-publicly traded business organizations.

DealStats transaction data covers 1990 through the end of March 2023. During this time, DealStats reported transaction data on 45,395 sales of businesses. Each sale was for a 100% equity interest; no transactions involved fractional ownership interests. Certain transactions were eliminated due to factors such as missing information, non-U.S. targets, and transactions reported in non-U.S. currencies. To ensure that only viable business organizations were considered, 1,849 sale transactions were eliminated because of annual sales below $100,000. As shown in Table 2, after eliminations, 37,272 sale transactions remained for this analysis.

TABLE 2
SAMPLE SELECTION

Sale Transactions in DealStats from 1990 through March 31, 2023	45,395
Less: Non-U.S. Targets	(1,949)
Less: Missing Target Structure	(2,507)
Less: Annual Sales under $100,000	(1,849)
Less: Transaction Reported in Non-U.S. Currency	(1,194)
Less: Structure Reported as LTD, Consol, or Nonprofit	(621)
Less: Missing Acquirer Type	(3)
Final Sample	37,272

The data covers a wide range of years, including nearly six years post-TCJA. Table 3 provides the detail of the number of sale transactions by year.

TABLE 3
TRANSACTION FREQUENCY BY YEAR

Sale Year	Frequency	Percent	Cumulative
1990	2	0.01%	0.01%
1991	2	0.01%	0.01%
1992	7	0.02%	0.03%
1993	14	0.04%	0.07%
1994	39	0.10%	0.17%
1995	125	0.34%	0.51%
1996	439	1.18%	1.68%
1997	614	1.65%	3.33%
1998	1,046	2.81%	6.14%
1999	1,202	3.22%	9.36%
2000	1,241	3.33%	12.69%
2001	1,080	2.90%	15.59%
2002	1,045	2.80%	18.39%
2003	1,004	2.69%	21.09%
2004	1,348	3.62%	24.70%
2005	1,410	3.78%	28.49%
2006	1,338	3.59%	32.08%
2007	1,558	4.18%	36.26%
2008	1,529	4.10%	40.36%
2009	970	2.60%	42.96%
2010	1,258	3.38%	46.34%
2011	1,254	3.36%	49.70%
2012	1,255	3.37%	53.07%
2013	1,339	3.59%	56.66%
2014	1,611	4.32%	60.98%
2015	1,679	4.50%	65.49%
2016	1,907	5.12%	70.61%
2017	1,943	5.21%	75.82%
2018	2,036	5.46%	81.28%
2019	2,149	5.77%	87.05%
2020	1,562	4.19%	91.24%
2021	2,106	5.65%	96.89%
2022	1,127	3.02%	99.91%
2023	33	0.09%	100.00%
Total	37,272		

As shown in Table 4, just over 24% of the transactions occurred post-TCJA. This is a sufficient representation of transactions to assess the effects of the TCJA tax cuts on the firm value of these business organizations.

TABLE 4
TRANSACTIONS BY ENTITY TYPE AND PRE- OR POST-TCJA

	Pre-TCJA	Post-TCJA	Total
C Corporation	10,514	1,830	12,344
LLC	3,723	2,980	6,703
LLP	100	7	107
LP	116	19	135
Partnership	299	61	360
S Corporation	11526	3793	15,319
Sole Proprietorship	1981	323	2,304
Total	28,259	9,013	37,272
	75.8%	24.2%	100.0%

Table 5 provides detail regarding target entity form, stock versus asset purchases, and industries included in the data sample.

TABLE 5
DESCRIPTIVE STATISTICS – TRANSACTION COUNT

Panel A	Asset Purchase	Stock Purchase	Total
C Corporation	4,648	7,696	12,344
LLC	6,020	683	6,703
LLP	93	14	107
LP	104	31	135
Partnership	328	32	360
S Corporation	13754	1,565	15,319
Sole Proprietorship	2,279	25	2,304
Total	27,226	10,046	37,272
Panel B	Private Acquirer	Public Acquirer	Total
C Corporation	4,653	7,691	12,344
LLC	5,877	826	6,703
LLP	63	44	107
LP	86	49	135
Partnership	314	46	360
S Corporation	13731	1,588	15,319
Sole Proprietorship	2,289	15	2,304

Panel A	Asset Purchase	Stock Purchase	Total
Total	27,013	10,259	37,272
Panel C	Pre-TCJA	Post-TCJA	Total
Non-Durables	1,440	622	2,062
Durables	501	129	630
Manufacturing	1,729	419	2,148
Energy	239	57	296
Chemicals	187	38	225
Business Equipment	2,798	372	3,170
Telecommunications	388	36	424
Utilities	121	27	148
Whlse/Retail Sales	9,970	3494	13,464
Health	1,859	416	2,275
Finance	1,874	586	2,460
Other	7,153	2817	9,970
Total	28,259	9,013	37,272

The bivariate correlations for each of the variables of interest are presented in Table 6. As shown, the variable *PostTCJA* is positively correlated with *Ln_FirmVal* indicating an overall increase in value associated with the effects of the TCJA.

TABLE 6
CORRELATION TABLE

	Ln_ FValue	**C Corp**	**Pub_Acq**	**Ln_Sales**	**Sale Year**	**Post TCJA**
Ln_FirmVal	1.0000					
C Corp	0.1331	1.0000				
Pub_Acq	0.1373	0.5480	1.0000			
Ln_Sales	0.5890	0.1279	0.1312	1.0000		
Sale Year	0.0222	-0.2718	-0.3676	0.0067	1.0000	
PostTCJA	0.0092	-0.1538	-0.1839	-0.0036	0.6842	1.0000

The primary variable of interest is the transaction price which serves as a proxy for firm value. To adjust for heteroskedasticity, the transaction price variable, *Ln_FirmVal*, was converted to the natural log. The same issue occurred with annual sales, *Ln_*Sales. Prior research has shown that annual sales have the most significant influence on firm value (Cooper, 2021; Cooper & Cooper, 2022). Other influential characteristics effecting firm value include the entity type of the target and the type of market participant (Cooper, J.R., 2021; Covrig and McConaughy, 2015; DiGabriele, 2008). The annual change in the rate of inflation and the target entity's industry were included as control variables. Other control variables were considered but did not add to the explanatory power of the regression.

RESULTS

Table 7 shows the results of the regression model. Column (1) includes all 37,272 sale transactions, which is comprised of C corporations, S corporations, sole proprietorships, and all forms of partnerships. *Post-TCJA is positive and highly significant, indicating that non-publicly traded business organizations increased in value relative to their pre-TCJA value,* affirming H1. Since the dependent variable is log-transformed, interpreting the size of the increase requires exponentiating the coefficient of *PostTCJA*, which indicates a value increase of just over 27%.

We expected all PTE forms to experience similar increases in firm value (H2). However, examination of Columns (4), (5), and (6) shows a clear difference in the impact on the various entity forms. Column (4) assesses only S corporations, which do show an increase in value, but at the lowest level of significance ($p < 0.05$). In contrast, Columns (5) and (6), which examine partnerships and sole proprietorships, indicate no significant results in the variable of interest, *PostTCJA*. Based on this, H2 is not supported, as the various PTE entity forms did not share similar increases in firm value.

TABLE 7
REGRESSION MODELS

	All Trans	C Corps	Non-C Corps	S Corps	P/S Form	Sole Proprietors
	(1)	(2)	(3)	(4)	(5)	(6)
PostTCJA	0.1044***	0.3740***	0.0238*	0.0325*	-0.0070	-0.0203
	(0.0119)	(0.0307)	(0.0111)	(0.0149)	(0.0198)	(0.0396)
Ln_Sales	0.9341***	0.9520***	0.8948***	0.8844***	0.9120***	0.7762***
	(0.0029)	(0.0047)	(0.0040)	(0.0051)	(0.0075)	(0.0167)
CCorp	0.2268***					
	(0.0126)					
PubAcq	1.0329***	0.9613***	1.1196***	0.9999**	1.3067***	0.8701**
	(0.0165)	(0.0279)	(0.0210)	(0.0258)	(0.0397)	(0.1767)
Constant						
InflRate	Y	Y	Y	Y	Y	Y
Ind	Y	Y	Y	Y	Y	Y
N	37,272	12,344	24,928	15,319	7,305	2,304
adj. R^2	0.9079	0.8791	0.8392	0.8160	0.8795	0.5207

DV = Ln_FirmVal
Standard errors in parentheses
* p < 0.05, ** p < 0.01, *** p < 0.001
Control Variables: Y = controls for change in Inflation Rate and Industry are included.

Column (2) provides the results when only C corporation data is examined. We predicted that non-publicly traded C corporations would report higher firm valuations in the post-TCJA years (H3). The *PostTCJA* variable of interest in Column (2) is positive and highly significant ($p < 0.001$) indicating C corporations reflected the tax rate reduction through an increase in firm value. As Column (2) shows, the coefficient of *PostTCJA* is even stronger than the results of examining all transactions in the data suggesting C corporations were very influential in the overall results shown in Column (1). Therefore, H3 is supported.

Column (3) of Table 7 reflects the results of including only sole proprietorships, S corporations, and all forms of partnerships. Again, the variable of interest is positive and significant but only at the $p < .05$ level, supporting H4. PTEs do have a significantly higher firm value in the post-TCJA years, but clearly not as strong an increase as C corporations (Column (2)).

CONCLUSION

From the perspective of non-publicly traded businesses, the corporate tax rate reduction was clear and transparent resulting in a value premium of about 27% over pre-TCJA firm prices. The news for other non-publicly traded business organizations was not quite so favorable. The complexity of the IRC § 199A deduction, combined with investors' inability to assess its applicability, virtually eliminated the valuation premium associated with the passage of the TCJA tax cuts. Only S corporations registered a small value increase of about 7.8%. Sole proprietorships and all forms of partnerships did not reflect a value specific benefit from passage of the TCJA.

The OBBBA made permanent the PTE tax benefits of IRC § 199A. As noted above, the data used in this analysis is from the pre-OBBBA period, so it is possible the temporary benefit of QBID played a role in its lack of influence on value. Additional analysis using post-OBBBA data should provide insight into this question.

It is also puzzling that S corporations were found to have a measurable value increase when sole proprietorships and partnerships did not. Further research in this area may produce an explanation.

This study provides several contributions to our knowledge of non-publicly traded business organizations. First, it provides evidence that the sweeping tax changes of the TCJA affected the firm value of these organizations. Second, it provides additional important information related to the effects of the tax reductions on the entity form subgroups of non-publicly traded business organizations. And it assesses the effectiveness of IRC § 199A as a benefit comparable to the TCJA reduction in corporate tax rates.

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