LB&I Training
Tax Cuts & Jobs Act (TCJA)

Training
Participant Guide
October 2019

Official IRS Training Material

Welcome

LB&I Tax Cuts & Jobs Act Training

IRS Mission Statement

IRS

Mission Statement

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

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14 General Principles of Ethical Conduct

Please see **Document 9300** for a complete list of the 14 General Principles of Ethical Conduct for Federal Employees.

Taxpayer Bill of Rights

Please see **Publication 1** to read the full text of Your Rights as a Taxpayer.

TCJA Course Overview

LB&I Tax Cuts & Jobs Act training sessions are a large part of LB&I's multi-pronged approach to tax reform training. This mandatory training course covers IRC § § 199A, 451, 163(j), 951A, 250, 59A, 965, 367 and 91.

Table of Contents (as originally presented)

TCJA Course Agenda

Monday - October 21, 2019

- Executive Opening, Introductions and Admin
- IRC § 199A (Qualified Business Income Deduction)

Tuesday - October 22, 2019

- IRC § 451 (Income Recognition Guidance)
- IRC § 163(j) (Limitation on Business Interest Expense)

Wednesday - October 23, 2019

- IRC § 163(j) (Limitation on Business Interest Expense) (cont’d)
- IRC § 367 & 91 (Transfer Pricing/Outbound Transfers)

TCJA Course Agenda (cont'd)

Thursday - October 24, 2019

- IRC § 951A (Global Intangible Low-Taxed Income)
- IRC § 250 (Foreign Derived Intangible Income)

Tuesday - October 29, 2019

- IRC § 965 (Transition Tax)

Wednesday - October 30, 2019

- IRC § 59A (Base Erosion and Anti-abuse Tax)

Thursday – October 31, 2019

- Final Comments and Executive Closing

Instructor Introductions

Instructor Introductions

LB&I Training
Tax Cuts & Jobs Act (TCJA)

IRC § 199A
Qualified Business Income Deduction

Lesson Objectives

At the end of this lesson, you will be able to:

- Determine eligibility, provide an overview of the deduction, and define terms
- Explain the computation
  - At or below the threshold
  - Above the threshold and phase-in range
  - Within the phase-in range
- Define the aggregation rules
- Describe penalties and other items

Acronyms

- **QBI** – Qualified Business Income
- **QBID** – Qualified Business Income Deduction
- **QTB** – Qualified Trade or Business
- **REIT** – Real Estate Investment Trust
- **PTP** – Publicly Traded Partnership
- **SSTB** – Specified Service Trade or Business
- **UBIA** – Unadjusted Basis Immediately after Acquisition
- **DPAD** - Domestic Production Activities Deduction

Eligibility, Overview and Definitions

Who is Eligible?

Taxpayers, other than C corporations, with qualified business income (QBI) from a qualified trade or business (QTB) or qualified publicly traded partnership (PTP) income and Section 199A real estate investment trust (REIT) dividends may take this deduction, including:

- Individuals,
- Certain trusts and estates.

What is the Deduction?

Generally, individuals and certain trusts and estates may be entitled to a qualified business income deduction (QBID) of up to:

1. 20% of qualified business income (QBI), plus
2. 20% of combined qualified REIT dividends and qualified PTP income.

The deduction is limited to the lesser of these amounts or 20% of taxable income less net capital gain. Other limitations may apply depending on the taxpayer's taxable income.

Qualified Business Income

QBI is the net amount of income, gain, deduction, and loss from any qualified trade or business (QTB) including those conducted through:

- Sole proprietorships,
- S corporations,
- Partnerships,
- Trusts, and
- Estates.

Items Reflected on Form 1040 that Reduce QBI

QBI is reduced by any deductions attributable to the trade or business including, but not limited to, the deductible portion of:

- Self-employment tax,
- Self-employed health insurance,
- Contributions to qualified retirement plans,
- Deductible unreimbursed partnership expenses, and
- Business interest allocable to S corporation or partnership, deducted on Schedule E.

QBI Does Not Include

- Items that are not properly includable in taxable income
- Capital gains or losses
- Interest income not properly allocable to a trade or business
- Wage income
- Income that is not effectively connected with the conduct of a business within the United States

QBI Does Not Include (cont'd)

- Commodities transactions or foreign currency gains or losses
- Certain dividends and payments in lieu of dividends
- Income, loss, or deductions from notional principal contracts
- Annuities (unless received in connection with the trade or business)

QBI Does Not Include (cont’d)

- Amounts received as reasonable compensation received from an S corporation
- Amounts received as guaranteed payments received from a partnership
- Payments received by a partner for services other than in a capacity as a partner

Qualified Trade or Business

A QTB is any trade or business operated by an individual or passthrough entity that is allowed a deduction for ordinary and necessary business expenses (section 162), with three exceptions:

1. the trade or business of being an employee,
2. specified service trade or business (SSTB), and
3. A trade or business conducted by a C corporation.

Note: The SSTB exception only applies if a taxpayer’s taxable income, before QBID, exceeds the threshold.

Section 162 Trade or Business

- In general, to be engaged in a trade or business, the taxpayer must be involved in the activity with continuity and regularity and the primary purpose for engaging in the activity must be for income or profit.
- For interests owned in a passthrough entity, the trade or business determination is made at the entity level.

Rentals

Rentals qualify for the QBID if:

1. The rental rises to the level of a section 162 trade or business, or
2. The rental real estate enterprise meets the safe harbor in Notice 2019-07, or
3. The rental or licensing of property is to a commonly controlled trade or business operated by an individual or passthrough entity.
   - Sometimes referred to as self-rental.

Qualified REIT Dividends & Qualified PTP Income Defined

- **Qualified REIT Dividends (Form 1099-DIV, box 5)**
  Any dividend received from a REIT (including REIT dividends earned through a RIC), except capital gain dividends under section 857(b)(3) and qualified dividends under section 1(h)(11).
- **Qualified PTP Income**
  Qualified items of income, gain, deduction, and loss from a PTP, plus any gain or loss recognized on the disposition of the PTP interest not treated as a capital gain or loss.

Passthrough Entity Reporting

S Corporations & Partnerships

- For each QTB, the entity must provide the necessary information for its eligible shareholders or partners to compute their deduction (Schedule K-1, Other Information).

Estates & Trusts

- Split QBI items between the estate/trust and its beneficiaries, and
- Report necessary information items allocated to eligible beneficiaries (Schedule K-1, Other Information).

Passthrough Entity Reporting (cont'd)

Required items reported by S corporations, partnerships, trusts and estates to owners:

- qualified business income,
- whether any trades or businesses conducted by the entity are SSTBs,*
- W-2 wages,*
- unadjusted basis immediately after acquisition (UBIA) of qualified property,*
- Qualified REIT dividends and qualified PTP income, and
- domestic production activities deduction (section 199A(g)) passed through from cooperative.

* Needed for limitations.

Questions

Computation

General Computation

In general, the QBID equals the lesser of:

QBI Component

PLUS: 20% (qualified REIT Dividends + qualified PTP Income)

or

20% (Taxable Income* – Net Capital Gain)

* Calculated before the QBID

QBI Component

- Taxpayers at or below the threshold:
  = QBI x 20%, reduced by the Patron Reduction
- Taxpayers above the threshold but within the phase-in range:
  = QBI computation is adjusted as follows:
  1. QBI, W-2 wages, and UBIA of qualified property reduced by applicable percentage for SSTB,
  2. W-2 wage and UBIA of qualified property limitations applied (phased-in), and
  3. QBI Component is reduced by the Patron Reduction

QBI Component (cont’d)

Taxpayers above the threshold and phase-in range:

= QBI computation is adjusted as follows:

1. SSTB is excluded from QTB,
2. W-2 wage and UBIA of qualified property limitations applied, and
3. The QBI Component is reduced by the Patron Reduction.

An SSTB is not a QTB for taxpayers with taxable income above the threshold and phase-in range.

Threshold Amount and Phase-In Range

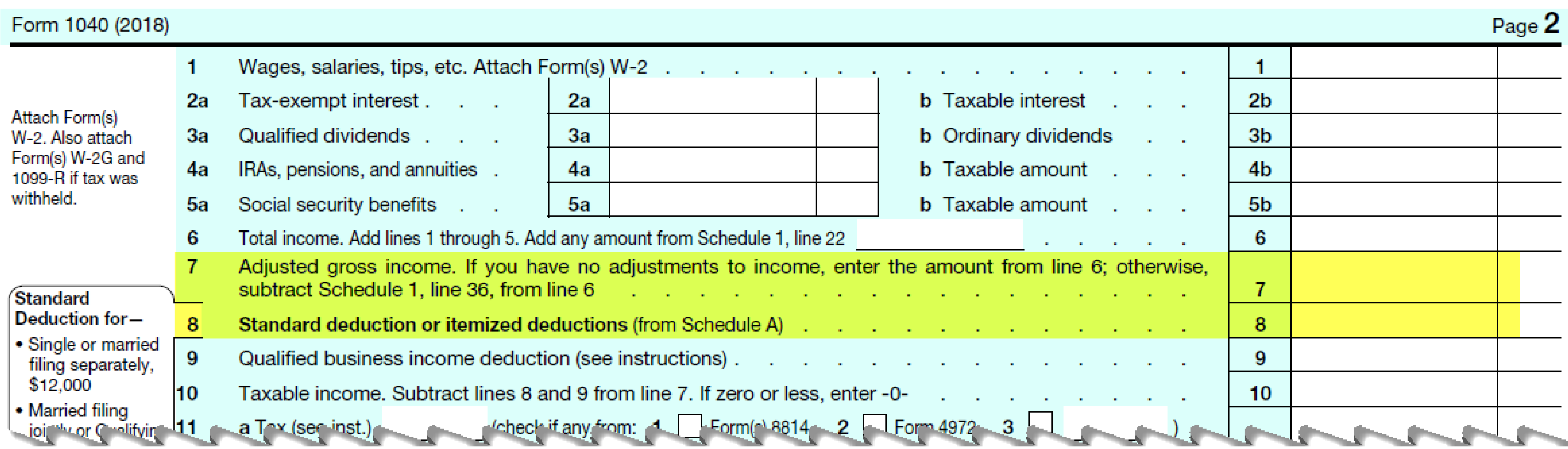
- For 2018, the threshold is taxable income of $157,500 or $315,000 if married filing jointly.
- Phase-in range equals the threshold amount plus $50,000 or $100,000 if married filing jointly:
  - More than $157,500 to $207,500, or
  - More than $315,000 to $415,000 if married filing jointly.
- The threshold amount is adjusted annually for inflation.

Taxable Income

Taxable income is computed before the QBID.

Generally, the taxpayer's taxable income for QBID =

- Adjusted gross income (line 7)
- Less: Standard or itemized deductions (line 8)



Form 1040 (2018) Page 2

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	1	Wages, salaries, tips, etc. Attach Form(s) W-2			1	
	2a	Tax-exempt interest	2a	b Taxable interest	2b	
	3a	Qualified dividends	3a	b Ordinary dividends	3b	
	4a	IRAs, pensions, and annuities	4a	b Taxable amount	4b	
	5a	Social security benefits	5a	b Taxable amount	5b	
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22			6	
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6			7	
Standard Deduction for—	8	**Standard deduction or itemized deductions** (from Schedule A)			8	
• Single or married filing separately, $12,000	9	Qualified business income deduction (see instructions)			9	
• Married filing	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-			10	

Net Capital Gain

Net capital gain for section 199A includes:

- Qualified dividends from Form 1040, line 3a

PLUS

- The smaller of the amounts reported on Schedule D line 15 or 16, if blank or a loss, your net gain is zero, or
- When Schedule D is not required, the gain on Form 1040, Schedule 1, line 13.

Loss Netting – QBI Component

- Negative QBI from a QTB must offset positive QBI from other QTBs in proportion to their net QBI.
- If overall combined QBI is less than zero, the QBI component for the year is zero and the negative amount carries over to offset future year’s QBI.
- W-2 wages and UBIA of qualified property from QTBs that produce negative QBI are not taken into account in the taxable year and are not carried over.

Negative Combined REIT Dividends and PTP Income

- Deductible losses from a PTP must offset qualified income from other PTPs and qualified REIT dividends.

- If overall qualified REIT dividends and qualified PTP income are less than zero, the negative amount carries over to offset future year's qualified REIT dividends and qualified PTP income but does not offset QBI from a trade or business.

Computation
At or Below the Threshold

General Computation
At or Below Threshold

The QBID is limited to the lesser of:

QBI Component

PLUS: 20% (qualified REIT Dividends + qualified PTP Income)

or

20% (Taxable Income* – Net Capital Gain)

* Calculated before the QBID

QBI Component
At or Below the Threshold

The QBI Component when taxable income, before QBID, is at or below the threshold:

= QBI x 20%, reduced by the patron reduction

Note: The SSTB exclusion does not apply.

Example 1 – At or Below Threshold Taxable Income Limitation

Abel, who is single, operates a bakery as a sole proprietorship. In 2018 he had the following:

QBI	$100,000
Net capital gain	$7,000
Taxable income, before QBID	$81,000

Abel's QBID is $14,800 computed as follows:

Example 1 – At or Below Threshold Taxable Income Limitation (cont'd) 1

QBI	$100,000
Net capital gain	$7,000
Taxable income, before QBID	$81,000

QBID is limited to the lesser of:

- 20% x $100,000 (QBI) = $20,000, or
- 20% x ($81,000 (TI) – $7,000 (NCG)) = **$14,800**

Example 1 – At or Below Threshold Taxable Income Limitation (cont'd) 2

Qualified Business Income Deduction - Simplified Computation

1	(a) Trade or business name	(b) Employer identification number		(c) Qualified business income or (loss)
	Bakery	xx-xxxxxxx		100,000
2	Total qualified business income or (loss). Combine lines 1(c).		100,000	
3	Qualified business loss carryover from prior years, enter as a negative number		-	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-		100,000	
5	Qualified business income component. Multiply line 4 by 20% (0.20).			20,000
6	Qualified REIT dividends and publicly traded partnerships income or (loss). See instructions		-	
7	Qualified REIT dividends and publicly traded partnership loss carryover from prior years. Enter as a negative number		(-)	
8	Total qualified REIT dividends and publicly traded partnership income. Add lines 6 and 7. If zero or less, enter -0-		-	
9	REIT and publicly traded partnership component. Multiply line 8 by 20% (0.20).			-
10	Qualified business income deduction before the income limitation. Add lines 5 and 9			20,000
11	Taxable income before qualified business income deduction		81,000	
12	Net capital gain. See instructions		7,000	
13	Subtract line 12 from line 11. If zero or less, enter -0-		74,000	
14	Income limitation. Multiply line 13 by 20% (0.20)			14,800
15	Qualified business income deduction. Enter the smaller of line 10 or line 14.			**14,800**

Example 2 – At or Below Threshold REIT Dividends & PTP Income

A married individual filing a joint return reports:

QBI	$200,000
Qualified REIT dividends	$1,000
Qualified PTP income	$500
Net capital gain	$0
Taxable income, before QBID	$270,000

The QBID is $40,300 computed as follows:

Example 2 – At or Below Threshold REIT Dividends & PTP Income (cont'd)

QBID is the lesser of:

- 20% x $200,000 QBI

  Plus 20% x ($1,000 REIT + $500 PTP) = **$40,300**

  or

- 20% x $270,000 TI = $54,000

Example 2 – At or Below Threshold REIT Dividends & PTP Income (cont'd)

	Qualified Business Income Deduction - Simplified Computation		
1	(a) Trade or business name	(b) Employer identification number	(c) Qualified business income or (loss)
	Business	xx-xxxxxxx	200,000
2	Total qualified business income or (loss). Combine lines 1(c).	200,000	
3	Qualified business loss carryover from prior years, enter as a negative number	-	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	200,000	
5	Qualified business income component. Multiply line 4 by 20% (0.20).		40,000
6	Qualified REIT dividends and publicly traded partnerships income or (loss). See instructions	1,500	
7	Qualified REIT dividends and publicly traded partnership loss carryover from prior years. Enter as a negative number	(-)	
8	Total qualified REIT dividends and publicly traded partnership income. Add lines 6 and 7. If zero or less, enter -0-	1,500	
9	REIT and publicly traded partnership component. Multiply line 8 by 20% (0.20).		300
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		40,300
11	Taxable income before qualified business income deduction	270,000	
12	Net capital gain. See instructions		
13	Subtract line 12 from line 11. If zero or less, enter -0-	270,000	
14	Income limitation. Multiply line 13 by 20% (0.20)		54,000
15	Qualified business income deduction. Enter the smaller of line 10 or line 14.		**40,300**

Example 3 – At or Below Threshold Loss Netting - Multiple Businesses

A married individual filing a joint return reports:

QBI:

• S corporation business	$200,000
• Schedule C business	($60,000)
Taxable Income before QBID	$270,000

The QBID is $28,000 computed as follows:

Example 3 – At or Below Threshold Loss Netting - Multiple Businesses (cont'd)

QBI:

• 1120S Sch. K-1	$200,000	$140,000
• Sch. C	($60,000)	
Taxable Income before QBID	$270,000	

QBID is the lesser of:

- 20% x $140,000 QBI = **$28,000** or
- 20% x $270,000 TI = $54,000

Example 3 – At or Below Threshold Loss Netting - Multiple Businesses (cont'd)

Qualified Business Income Deduction - Simplified Computation

1	(a) Trade or business name	(b) Employer identification number	(c) Qualified business income or (loss)
	1120S Sch. K-1	xx-xxxxxxx	200,000
	Sch. C	xx-xxxxxxx	(60,000)
2	Total qualified business income or (loss). Combine lines 1(c).	140,000	
3	Qualified business loss carryover from prior years, enter as a negative number	-	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	140,000	
5	Qualified business income component. Multiply line 4 by 20% (0.20).		28,000
6	Qualified REIT dividends and publicly traded partnerships income or (loss). See instructions	-	
7	Qualified REIT dividends and publicly traded partnership loss carryover from prior years. Enter as a negative number	(-)	
8	Total qualified REIT dividends and publicly traded partnership income. Add lines 6 and 7. If zero or less, enter -0-	-	
9	REIT and publicly traded partnership component. Multiply line 8 by 20% (0.20).		-
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		28,000
11	Taxable income before qualified business income deduction	270,000	
12	Net capital gain. See instructions		
13	Subtract line 12 from line 11. If zero or less, enter -0-	270,000	
14	Income limitation. Multiply line 13 by 20% (0.20)		54,000
15	Qualified business income deduction. Enter the smaller of line 10 or line 14.		**28,000**

Questions

Computation

Above the Threshold and Phase-In Range

General Computation
Above the Threshold and Phase-In Range

In general, the QBID equals the lesser of:

QBI Component

PLUS: 20% (qualified REIT Dividends + qualified PTP Income)

or

20% (Taxable Income* – Net Capital Gain)

* Calculated before the QBID

QBI Component
Above the Threshold and Phase-In Range

When taxable income, before QBID, is above the threshold and phase-in range:

The QBI computation is adjusted as follows:

1. SSTB is excluded from QTB,
2. W-2 wage and UBIA of qualified property limitations are applied, and
3. QBI Component is reduced by the Patron Reduction.

Specified Service Trade or Business

Any trade or business involving the performance of services in the fields of:

consulting	health
athletics	law
financial services	accounting
brokerage services	actuarial science
	performing arts

Specified Service Trade or Business (cont’d) 1

In addition, a SSTB is any trade or business:

- Which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities.

Specified Service Trade or Business (cont'd)

A SSTB is also any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners.

- This means a trade or business that receives fees, compensation, or other income for:
  - endorsing products or services,
  - the use of an individual's image, likeness, name, signature, voice, trademark, or similar symbols associated with an individual's identity, or
  - appearing at an event, or on radio, television, or other media.

De Minimis Rule

A trade or business will not be treated as an SSTB if:

- Gross receipts are $25 million or less, and
- Less than 10% of the gross receipts are from a specified services activity

OR

- Gross receipts are greater than $25 million, and
- Less than 5% of the gross receipts are from a specified services activity.

QBI Wage / Basis Limitation Above the Threshold and Phase-In Range

For taxpayers with taxable income (before the QBID) above the threshold and phase-in range, the QBI for each QTB is limited to the lesser of:

- 20% of QBI from the business or
- The greater of:
  - 50% of W-2 wages paid by the QTB, or
  - 25% of W-2 wages plus 2.5% of the UBIA of qualified property used by the QTB.

W-2 Wages

- Means the amount paid with respect to a trade or business as W-2 wages to employees for services performed.
- Wages must be allocated among various trades or businesses if the taxpayer conducts more than one business.
- Only wages properly allocable to QBI are includable.
- Rev. Proc. 2019-11 provides guidance on methods for determining W-2 wages for purposes of the section 199A W-2 wage limitations.

W-2 Wages (cont'd)

Methods to compute wages include:

- Unmodified box method,
- Modified box 1 method, or
- Tracking wages method.

Other considerations include:

- Short tax year,
- Acquisition or disposition of a trade or business,
- Non-duplication rule, and
- Wages paid by someone other than a common law employer.

Unadjusted Basis Immediately After Acquisition for Qualified Property

- UBIA of qualified property is generally the asset’s basis on the placed in service date.
- Qualified property is tangible property subject to depreciation, held and used for the production of QBI by the QTB on the last day of the taxable year, for which the depreciable period has not ended.

The depreciable period ends on the later of:

- 10 years after the property is placed in service, or
- the last day of the full year for the applicable recovery period under section 168.

UBIA for Qualified Property (cont’d)

Special considerations for UBIA include:

- Improvements to property,
- Like-kind exchange,
- Received in a nonrecognition transaction,
- Acquired within 60 days of year end, and
- Basis adjustments under sections 734(b) & 743(b).

Example 4 – Above Threshold Wage / UBIA Limitation

Don operates a sole proprietorship that pays no W-2 wages and holds no qualified property.

QBI	$1,000,000
Taxable Income	$980,000
Wages	$0
UBIA	$0

Don's QBID is $0, computed as follows:

Example 4 – Above Threshold Wage / UBIA Limitation (cont'd)

QBID is the lesser of:

- 20% x $1,000,000 QBI = $200,000

  Limited to the greater of:

  - 50% of W-2 wages: (50% x $0) = **$0** or
  - 25% of W-2 wages plus 2.5% of UBIA:

    (25% x $0) + (2.5% x $0) = $0

  OR

- 20% x $980,000 TI = $196,000

Questions

Computation Within the Phase-In Range

General Computation Within the Phase-In Range 1

In general, the QBID equals the lesser of:

QBI Component

PLUS: 20% (qualified REIT Dividends + qualified PTP Income)

or

20% (Taxable Income* – Net Capital Gain)

* Calculated before the QBID

QBI Component
Within the Phase-In Range 2

When taxable income, before QBID, is above the threshold but within the phase-in range:

The QBI computation is adjusted as follows:

1. QBI, W-2 wages, and UBIA of qualified property from an SSTB are reduced to the applicable percentage,
2. W-2 wage and UBIA of qualified property limitations are applied (phased-in), and
3. QBI Component is reduced by the Patron reduction

Treatment of SSTB

- Taxable income, before QBID, at or below the threshold; SSTB is treated as QTB.
- Taxable income, before QBID, exceeds the threshold and the phase-in range; SSTB is not a QTB and does not generate QBI, W-2 wages, or UBIA of qualified property.
- Taxable income, before QBID, exceeds the threshold, but is within the phase-in range; SSTB is treated as a QTB, but only the applicable percentages of QBI, W-2 wages, and UBIA of qualified property are taken into account in determining QBID.

SSTB
Applicable Percentage Limitation

The applicable percentage =

$$100\% - \frac{\text{Taxable Income* - Threshold}}{\text{Total Phase-in Range}}$$

* Computed before QBID.

Example 5 – Within Phase-In Range, SSTB Limited to Applicable Percentage

Tom, who is single, is the sole proprietor of a small accounting firm. In 2018, his taxable income is $175,000, QBI is $172,000, and the business paid W-2 wages of $65,000. His applicable percentage is:

$$\text{Applicable Percentage} = 100\% - \frac{175{,}000 - \$157{,}500}{\$50{,}000} = 65\%$$

Amounts allowable in computing his deduction:

- QBI: ($172,000 x 65%) = $111,800
- W-2 wages: ($65,000 x 65%) = $42,250

Treatment of QBI Wage / Basis Limitation

- Taxable income, before QBID, at or below the threshold; W-2 wage/UBIA of qualified property limitations do not apply.

- Taxable income, before QBID, exceeds the threshold and the phase-in range; W-2 Wage/UBIA of qualified property limitations apply.

- Taxable income, before QBID, above the threshold but within the phase-in range; W-2 wage/UBIA of qualified property limitations are phased-in.

Phase-In Reduction
QBI Wage / Basis Limitation

Phase-in Reduction =

$$\left(\text{20\% QBI } \textbf{ less } \begin{array}{l} \text{The greater of:} \\ \text{a) 50\% of wages, or} \\ \text{b) 25\% of wages plus} \\ \quad\ \text{2.5\% of the UBIA} \end{array} \right) \mathbf{X} \ \frac{\text{Taxable income* less threshold}}{\text{Total Phase-in Range}}$$

* Computed before QBID.

Example 6 – Within Phase-In Range
Phase-In Reduction

Bob (who is single) is the sole proprietor of a manufacturing company that reported:

Taxable Income	$199,000	Wages	$55,000
QBI	$180,000	UBIA	$150,000

His phase-in reduction is computed as follows:

$$\left(\begin{matrix} 36{,}000 \\ (180{,}000 \text{ X } 20\%) \end{matrix} - 27{,}500^{*} \right) \text{x} \frac{199{,}000 - 157{,}500}{50{,}000} = \$7{,}055$$

* The greater of:

- (55,000 x 50%) = $27,500 or
- (55,000 x 25%) + (150,000 x 2.5%) = $17,500

Example 6 – Within Phase-In Range Phase-In Reduction (cont'd)

Taxable Income	$199,000	Wages	$55,000
QBI	$180,000	UBIA	$150,000

Applying the phase-in reduction of $7,055 to QBI, the deduction is the lesser of:

- 20% of QBI: (180,000 x 20%) – 7,055 = **$28,945**
- 20% of TI – NCG: (199,000 x 20%) = $39,800

Bob's QBID is $28,945.

Questions

Aggregation

Aggregation of Qualified Trades or Businesses

Treas. Reg. § 1.199A-4

Section 199A is applied on a business-by-business basis. Each QTB, including those operated in the same entity, is treated as a separate trade or business for purposes of determining QBI and applying the W-2 wage/UBIA of qualified property limitations.

Taxpayers may choose to aggregate businesses together for purposes of determining QBI and applying the limitations if they satisfy the requirements of Treas. Reg. § 1.199A-4.

Aggregation Requirements

An individual or entity that chooses to aggregate its trades or businesses must demonstrate that:

1. The same person or group of persons owns 50% or more of each business to be aggregated for a majority of the year, including the last day of the taxable year.
2. Each business to be aggregated has the same taxable year.
3. None of the businesses to be aggregated are an SSTB.

Aggregation Requirements (cont'd)

4. The businesses to be aggregated meet at least two of the following factors:

   a. The businesses provide products, property, or services that are the same or customarily offered together.

   b. The businesses share facilities or share significant centralized business elements (e.g. personnel, accounting, legal, manufacturing, share facilities, etc.).

   c. The businesses are operated in coordination with, or reliance upon, one or more businesses in the aggregated group.

Aggregation by a Pass-Through Entity

- A pass-through entity may aggregate trades or businesses it owns directly or through another entity if the aggregation requirements are satisfied.
- Owners of the pass-through entity may not subtract from the trades or businesses aggregated by the pass-through entity, but may add additional trades or businesses to the aggregation.

Aggregation Reporting and Consistency

- Aggregations must be reported consistently in all subsequent taxable years unless there is a significant change in circumstances such that the aggregation requirements are no longer satisfied.
- Must attach a statement to the return each year identifying each aggregated trade or business.

Failure to Disclose Aggregation

If an individual or entity fails to attach the required disclosure statement, the Commissioner may disaggregate the trades or businesses.

Example 7 – Within Phase-In Range Comprehensive Example

Fred, who is single, wholly owns four S corporations; a restaurant, accounting firm, gas station, and bakery. All businesses share centralized bookkeeping and payroll services. The bakery sells a majority of its goods to the restaurant. Fred chooses to aggregate the restaurant and bakery.

- Fred meets the 50% ownership test, and
- Meets 2 of the 3 tests required to aggregate:
  - Share significant centralized business elements, and
  - Operated in reliance upon each other.

Example 7 – Within Phase-In Range Comprehensive Example (cont'd)

Fred's taxable income is $205,500, which includes $2,000 of net capital gain and $500 of qualified REIT dividends. The S corporations report the following:

Trade or Business	QBI	Wages	UBIA
Restaurant	100,000	40,000	25,000
Accounting Firm	30,000	25,000	0
Gas Station	(7,000)	10,000	20,000
Bakery	80,000	20,000	35,000

Fred's QBID is $30,515 computed as follows:

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Schedule A

Schedule A - Specified Service Trades or Businesses

Part I - Non-Publicly Traded Partnership

			SSTB 1
1a	Trade or business name		Accounting Firm
1b	Taxpayer identification number		xx-xxxxxxx
2	Qualified business income or (loss) from the trade or business		30,000
3	Allocable share of W-2 wages from the trade or business		25,000
4	Allocable share of the UBIA of all qualified property		-
5	Taxable income before qualified business income deduction	205,500	
6	Threshold. Enter $157,500 ($315,000 if married filing jointly)	157,500	
7	Subtract line 6 from line 5	48,000	
8	Phase-in range. Enter $50,000 ($100,000 if married filing jointly)	50,000	
9	Divide line 7 by line 8	96.00%	
10	Applicable percentage. Subtract line 9 from 100%	4.00%	
11	Applicable percentage of qualified business income or (loss). Multiply line 2 by line 10. Enter this amount on Schedule C or Part II, line 2 of the corresponding trade or business, as appropriate.		1,200
12	Applicable percentage of W-2 wages. Multiply line 3 by line 10. Enter this amount on Part II, line 4 of the corresponding trade or business, as appropriate.		1,000
13	Applicable percentage of the UBIA of qualified property. Multiply line 4 by line 10. Enter this amount on Part II, line 7 for the corresponding trade or business, as appropriate.		-

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Schedule B

Schedule B- Aggregation of Business Operations

Aggregation 1

1 Provide a description of the aggregated trade or business and an explanation of the factors met that allow the aggregation in accordance with Treas. Reg. § 1.199A-4. In addition, if you hold a direct or indirect interest in a relevant passthrough entity (RPE) that aggregates multiple trades or businesses, you must attach a copy of the RPE's aggregations.

Restaurant and bakery. Taxpayer wholly owns 100% of both businesses; meeting the requirements of Treas. Reg. § 1.199A-4(b)(1)(i).

The two businesses use significant centralized business elements; bookkeeping and payroll services (Treas. Reg. § 1.199A-4(b)(1)(v)(B)).

And the bakery is operated in reliance upon the restaurant as it sells goods to the restaurant (Treas. Reg. § 1.199A-4(B)(1)(v)(C)).

2 Has this trade or business aggregation changed from the prior year? This includes changes in the aggregation due to a trade or business being formed, acquired, disposed or ceasing operations. If yes, explain. no

3	Name of trade or business (a)	Identification number (b)	Qualified business income / (loss) (c)	Form W-2 wages (d)	UBIA (e)
	Restaurant	xx-xxxxxxx	100,000	40,000	25,000
	Bakery	xx-xxxxxxx	80,000	20,000	35,000
4	Totals. Total columns (c), (d), and (e). Enter the total amounts on Schedule C or Part II for the corresponding aggregation, as appropriate. See instructions.		180,000	60,000	60,000

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Schedule C

Schedule C - Loss Netting and Carryover

	Trade, business, or aggregation name	Qualified business income/(loss) (a)	Reduction for loss netting (b)	Adjusted qualified business income (combine (a) and (b), if zero or less, enter -0-) (c)
1	Aggregation 1	180,000	(6,954)	173,046
	Accounting Firm	1,200	(46)	1,154
	Gas Station	(7,000)	-	-
			-	-
		-	-	-

2	Qualified business net (loss) carryover from prior years	-
3	Total trade or business losses. Combine the negative amounts on lines 1(a) and 2 for all trades or businesses. Enter as a negative number.	(7,000)
4	Total trade or business income. Add the positive amounts on line 1 column (a) for all trades or businesses.	181,200
5	Losses netted with income of other trades or businesses. Enter as a negative number, the smaller of the absolute value of line 3 or 4. Allocate this amount to each trade or business in line 1 column (b). See instructions.	(7,000)
6	Qualified business net (loss) carryover. Subtract line 5 from line 3. If greater than zero, enter -0-.	-

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Part I

Part I Trade, Business, or Aggregation Information

Complete Schedules A, B, C and/or D, as applicable, before starting Part I. Attach additional worksheets when needed. See instructions)

1	(a) Trade, business, or aggregation Name	(b) Check if specified service	(c) Check if Aggregated	(d) Employer identification number	(e) Check if Patron
A	Aggregation 1		X		
B	Accounting Firm	X		XX-XXXXXXX	
C	Gas Station			XX-XXXXXXX	

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Part II

Part II Determine Your Qualified Business Income Component

		A	B	C
2	Qualified business income from the trade or business, or aggregation. See	173,046	1,154	-
3	Multiply line 2 by 20% (0.20). If your taxable income is $157,500 or less ($315,000 if married filing jointly), skip lines 4 through 12 and enter Line 3 on line 13.	34,609	231	-
4	Allocable share of wages from the trade, business, or aggregation	60,000	1,000	-
5	Multiply line 4 by 50% (0.50)	30,000	500	-
6	Multiply line 4 by 25% (0.25)	15,000	250	-
7	Allocable share of the unadjusted basis of all qualified property	60,000	-	-
8	Multiply line 7 by 2.5% (0.025)	1,500	-	-
9	Add lines 6 and 8	16,500	250	-
10	Enter the greater of line 5 or line 9	30,000	500	-
11	Wage and qualified property limitation. Enter the lesser of line 3 or line 10	30,000	231	-
12	Phased-in reduction. Enter amount from Part III, line 26, if any.	30,184	-	-
13	Qualified business income deduction before patron reduction. Enter the greater of line 11 or line 12.	30,184	231	-
14	Patron reduction. Enter the amount from Schedule D, line 6, if any.	-	-	-
15	Qualified business income component. Subtract line 14 from line 13.	30,184	231	-
16	Total qualified business income component. Add all amounts reported on line 15.	30,415		

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Part III

Part III Phased-in Reduction

			A	B	C
17	Enter amounts from line 3		34,609	n/a	n/a
18	Enter the amount from line 10		30,000	-	-
19	Subtract line 18 from line 17		4,609	-	-
20	Taxable income before qualified business income deduction	205,500			
21	Threshold. Enter $157,500 ($315,000 if married filing jointly)	157,500			
22	Subtract line 21 from line 20	48,000			
23	Phase-in range. Enter $50,000 ($100,000 if married filing jointly)	50,000			
24	Phase-in percentage. Line 22 divided by line 23	96.00%			
25	Total phase-in reduction. Multiply line 19 by line 24		4,425	-	-
26	Qualified business income after phase-in reduction. Subtract line 25 from line 17. Enter this amount on line 12 of the corresponding trade or business.		30,184	-	-

Example 7 – Within Phase-In Range Comprehensive Example (cont'd) - Part IV

Part IV Determine Your Qualified Business Income Deduction		
27 Total qualified business income component from all qualified trades, businesses or aggregations. Enter the amount from Part II, line 16.		30,415
28 Qualified REIT dividends and publicly traded partnership (PTP) income or (loss). See instructions	500	
29 Qualified REIT dividends and PTP (loss) carryover from prior years, enter as a negative number	-	
30 Total qualified REIT dividends and PTP income. Add lines 28 and 29. If less than zero enter -0-	500	
31 REIT and PTP component. Multiply line 30 by 20% (0.20)		100
32 Qualified business income deduction before the income limitation. Add lines 27 and 31		30,515
33 Taxable income before qualified business income deduction	205,500	
34 Net capital gain. See instructions	2,000	
35 Subtract line 34 from line 33. If zero or less, enter -0-	203,500	
36 Income limitation. Multiply line 35 by 20% (0.20)		40,700
37 Qualified business income deduction. Enter the smaller of line 32 or line 36.		30,515
38 Total qualified REIT dividends and PTP (loss) carryover. Add lines 28 and 29, if zero or greater enter -0-		-
39 Domestic production activities deduction (under IRC 199A(g)) allocated from an agricultural or horticultural cooperative. Don't enter more than line 33 minus line 37. Enter this deduction on Form 1040, line 10. See Instructions for Form 1040, line 10.		-

Questions

Penalties and Other Items

Penalties

The thresholds for determining whether there is a substantial understatement for the accuracy-related penalty of section 6662 is reduced for taxpayers claiming a deduction for QBI

- **from:** the greater of 10% of the tax required to be shown on the return or $5,000,
- **to:** the greater of 5% of the tax required to be shown on the return or $5,000.

Impact of Section 461(l), Limitation on Excess Business Losses

- Form 461, Limitation on Business Losses
- Losses and deductions disallowed by reason of section 461(l) will not be included in the QBI computation in the year incurred.
- Net operating loss attributable to section 461(l) allowed in a subsequent year must reduce QBI in the year the NOL is deductible.

Patron Reduction

Patrons of agricultural or horticultural cooperatives must reduce their QBID by the lesser of:

- 9% of the QBI allocable to qualified payments, or
- 50% of W-2 wages from the trade or business allocable to the qualified payments.

Agricultural & Horticultural Cooperatives

- Under section 199A(g), Agricultural and horticultural cooperatives are allowed a deduction for domestic production activities (DPAD) similar to the old section 199 deduction.

- DPAD may be deducted by the cooperative or passed through to its patrons.

Lesson Summary

You should now be able to:

- Determine eligibility, provide an overview of the deduction, and define terms
- Explain the computation
  - At or below the threshold
  - Above the threshold and phase-in range
  - Within the phase-in range
- Define the aggregation rules
- Describe penalties and other items

Questions

Internal Resources

- IRC 199A – Qualified Business Income Deduction Knowledge Base
  - 199ACalcTool
  - Issue Guide
  - Risk Analysis Tool

External Resources

- IRS.gov/TaxReform
  - Treas. Reg §1.199A Qualified Business Income Deduction
  - REG-134652-18 Proposed Regulations Qualified Business Income Deduction
  - FAQs on Section 199A
  - Rev. Proc. 2019-11 Determination of W-2 Wages for QBI Deduction
  - Notice 2019-07 Safe Harbor for Certain Real Estate Enterprises
  - Instructions to Form 1040
  - Publication 535, Business Expenses

Thank You

Thank you for your participation!