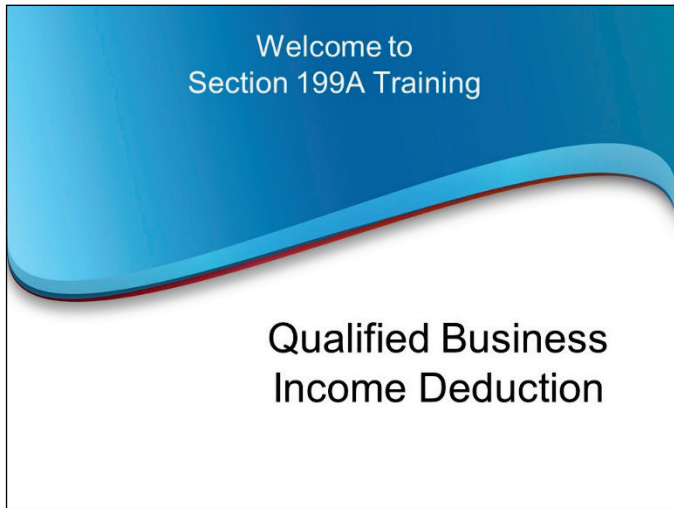
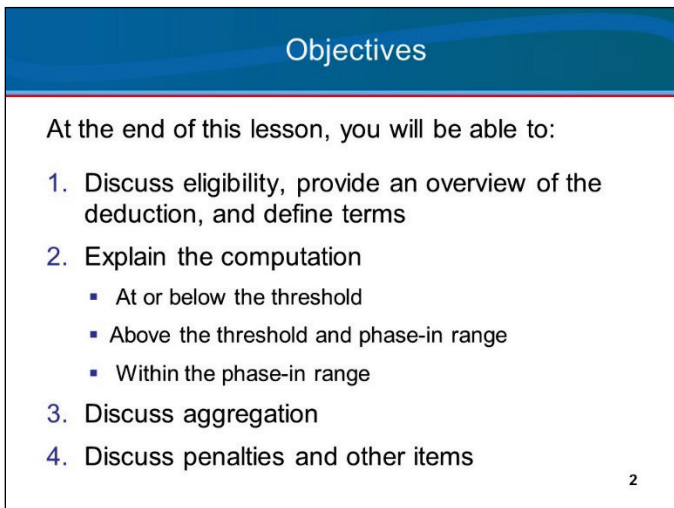


Tax Cuts and Jobs Act (TCJA)
Qualified Business Income Deduction
Provision 11011

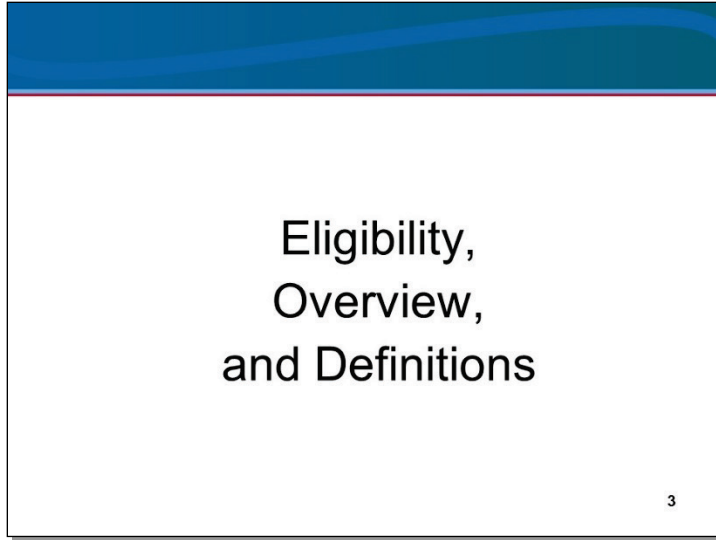
Slide 1 – Qualified Business Income Deduction



Slide 2 – Objectives



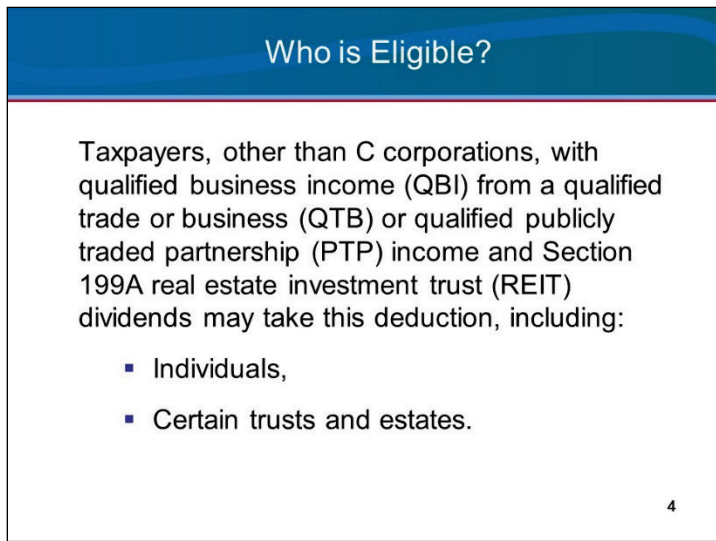
Slide 3 – Eligibility, Overview, and Definitions

A rectangular box representing a slide. It has a blue header with a white wave-like pattern. The main content area is white with the text "Eligibility, Overview, and Definitions" centered. A small number "3" is in the bottom right corner.

Eligibility,
Overview,
and Definitions

3

Slide 4 – Who is Eligible?

A rectangular box representing a slide. It has a blue header with a white wave-like pattern. The main content area is white with the text "Who is Eligible?" centered. Below the header, there is a paragraph of text and a bulleted list. A small number "4" is in the bottom right corner.

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.

4

Slide 5 – What is the Deduction?

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.

5

Slide 6 – Qualified Business 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.

6

Slide 7 – Items Reflected on Form 1040 that Reduce QBI

**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.

7

Slide 8 – QBI Does Not Include

QBI Does Not Include

- ❖ Items that are not properly includable in taxable income
- ❖ Capital gains or losses or dividends
- ❖ 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

8

Slide 9 – QBI Does Not Include, cont'd

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)

9

Slide 10 – QBI Does Not Include, cont'd

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

10

Slide 11 – Qualified Trade or Business

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.

11

Slide 12 – Section 162 Trade or Business

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.

12

Slide 13 – Rentals

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.

13

Slide 14– Qualified REIT Dividends & Qualified PTP Income Defined

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.

14

Slide 15 – Passthrough Entity Reporting

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).

15

Slide 16 – Passthrough Entity Reporting, cont'd

Passthrough Entity Reporting, cont'd

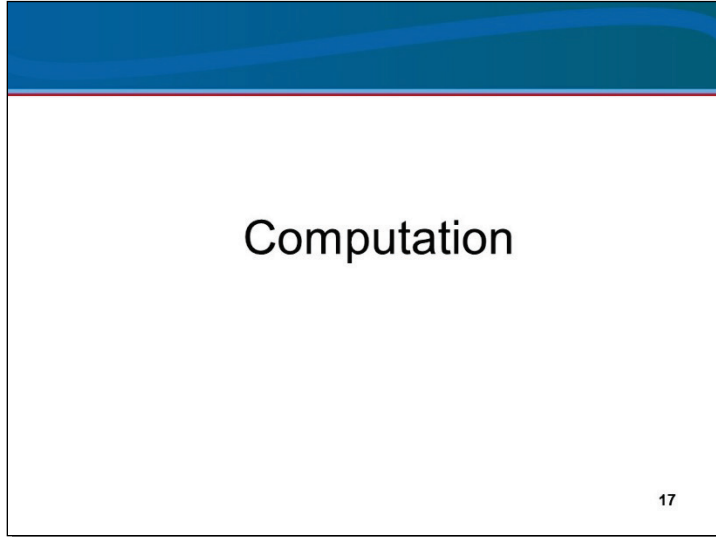
Required items reported by S corporations, partnerships, trusts and estates to owners:

- 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.

16

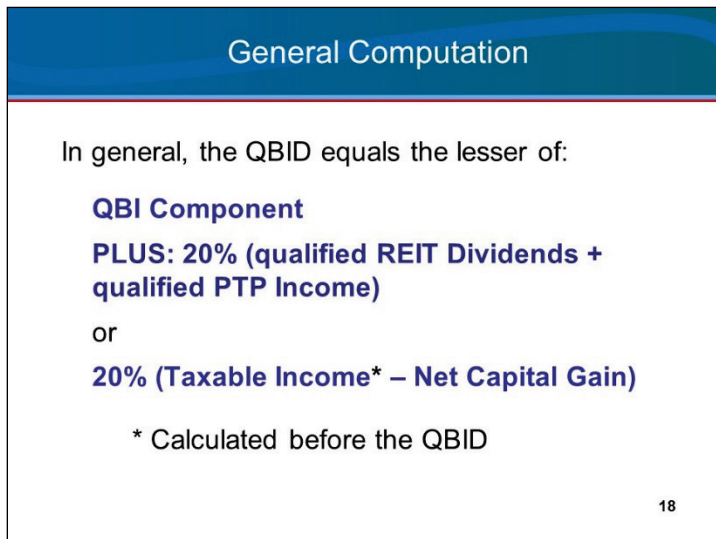
Slide 17 – Computation



Computation

17

Slide 18 – General 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

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Slide 19 – QBI Component

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

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Slide 20 – QBI Component, cont'd

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.

20

Slide 21 – Threshold Amount 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 amounts are adjusted annually for inflation.

21

Slide 22 – Taxable Income

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)

22

Slide 23 – Net Capital Gain

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.

23

Slide 24 – Loss Netting – QBI Component

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.

24

Slide 25 – Negative Combined REIT Dividends and PTP Income

**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.

25

Slide 26 –Computation At or Below the Threshold

**Computation
At or Below the Threshold**

26

Slide 27 – General Computation At or Below 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

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Slide 28 – QBI Component At or Below the Threshold

**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.

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Slide 29 – Example 1 – At or Below Threshold Taxable Income Limitation

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:

29

Slide 30 – Example 1 – At or Below Threshold Taxable Income Limitation, cont'd

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

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

QBID is limited to the lesser of:

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

30

Slide 31 – Example 1, cont'd

Example 1, cont'd

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

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Slide 32 – Example 2 – At or Below Threshold REIT Dividends & PTP Income

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:

32

Slide 33 – Example 2, cont'd

Example 2, 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

Slide 34 – Example 2, cont'd

Example 2, cont'd

Qualified Business Income Deduction - Simplified Computation			
	(a) Trade or business name	(b) Employer identification number	(c) Qualified business income or (loss)
1	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

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Slide 35 – Example 3 – At or Below Threshold Loss Netting – Multiple Businesses

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:

35

Slide 36 – Example 3, cont'd

Example 3, cont'd

QBI:

- 1120S Sch. K-1 \$200,000
- Sch. C (\$60,000) } \$140,000

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

36

Slide 37 – Example 3, cont'd

Example 3, 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		270,000
13 Subtract line 12 from line 11. If zero or less, enter -0-		54,000
14 Income limitation. Multiply line 13 by 20% (0.20)		28,000
15 Qualified business income deduction. Enter the smaller of line 10 or line 14.		28,000

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Slide 38 – Computation Above the Threshold and Phase-In Range

Computation
Above the Threshold and
Phase-In Range

38

Slide 39 – General 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

39

Slide 40 – QBI Component Above the Threshold and Phase-In Range

**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.

40

Slide 41 – Specified Service Trade or Business

Specified Service Trade or Business

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

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

41

Slide 42 – Specified Service Trade or Business, cont'd

Specified Service Trade or Business, cont'd

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.

42

Slide 43– Specified Service Trade or Business, cont’d

**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.

43

Slide 44 – De Minimus Rule

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.

44

Slide 45 – QBI Wage/Basis Limitation Above the Threshold and Phase-In Range

**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.

45

Slide 46 – W-2 Wages

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.

46

Slide 47 – W-2 Wages, cont'd

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.

47

Slide 48 –Unadjusted Basis Immediately after the Acquisition for Qualified Property

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.

48

Slide 49 – UBIA for Qualified Property, cont'd

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).

49

Slide 50 – Example 4 – Above Threshold Wage / UBIA Limitation

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:

50

Slide 51 – Example 4, cont'd

Example 4, cont'd

QBID is the lesser of:

- ❖ $20\% \times \$1,000,000 \text{ QBI} = \$200,000$
Limited to the greater of:
 - $50\% \text{ of W-2 wages: } (50\% \times \$0) = \mathbf{\$0}$ or
 - $25\% \text{ of W-2 wages plus } 2.5\% \text{ of UBIA:}$
 $(25\% \times \$0) + (2.5\% \times \$0) = \$0$

OR

- ❖ $20\% \times \$980,000 \text{ TI} = \$196,000$

51

Slide 52 – Computation Within the Phase-in Range

**Computation
Within the
Phase-In Range**

52

Slide 53 – General Computation Within the Phase-In Range

**General Computation
Within the 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

53

Slide 54 – QBI Component Within the Phase-In Range

**QBI Component
Within the Phase-In Range**

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

54

Slide 55 – Treatment of SSTB

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.

55

Slide 56 – SSTB – Applicable Percentage Limitation

SSTB - Applicable Percentage Limitation

The applicable percentage =

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

* Computed before QBID.

56

Slide 57 – Example 5 – Within Phase-In Range SSTB Limited to Applicable Percentage

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

57

Slide 58 – Treatment of QBI Wage / Basis Limitation

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.

58

Slide 59 – Phase-In Reduction QBI Wage / Basis Limitation

**Phase-In Reduction
QBI Wage / Basis Limitation**

Phase-in Reduction =

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

* Computed before QBID.

59

Slide 60 – Example 6 – Within Phase-In Range Phase-In Reduction

**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:

$$\left[36,000 - 27,500^* \right] \times \frac{199,000 - 157,500}{50,000} = \$7,055$$

* The greater of:

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

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Slide 61 – Example 6 – cont'd

Example 6, 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: $(180,000 \times 20\%) - 7,055 = \mathbf{\$28,945}$
- ❖ 20% of TI – NCG: $(199,000 \times 20\%) = \$39,800$

Bob's QBID is \$28,945.

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Slide 62 – Aggregation

Aggregation

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Slide 63 – Aggregation of Qualified Trades or Businesses

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.

63

Slide 64 – Aggregation Requirements

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.

64

Slide 65 – Aggregation Requirements, cont'd

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.

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Slide 66 – Aggregation by a Pass-Through Entity

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.

66

Slide 67 – Aggregation Reporting and Consistency

**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.

67

Slide 68 – Failure to Disclose Aggregation

Failure to Disclose Aggregation

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

68

Slide 69 – Example 7 – Within Phase-In Range Comprehensive Example

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.

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Slide 70 – Example 7, cont'd

Example 7, 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:

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Slide 71 – Example 7, cont'd Schedule A

Example 7, cont'd Schedule A	
Schedule A - Specified Service Trades or Businesses	
Part I - Non-Publicly Traded Partnership	
1a Trade or business name	SSTB 1
1b Taxpayer identification number	Accounting Firm XX-XXXXXX
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 UBI 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 UBI 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.	-
	71

Slide 72 – Example 7, cont'd Schedule B

Example 7, cont'd Schedule B																					
Schedule B - Aggregation of Business Operations																					
Aggregation 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.																					
1 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																					
	<table border="1"> <thead> <tr> <th>Name of trade or business (a)</th> <th>Identification number (b)</th> <th>Qualified business income / (loss) (c)</th> <th>Form W-2 wages (d)</th> <th>UBIA (e)</th> </tr> </thead> <tbody> <tr> <td>Restaurant</td> <td>XX-XXXXXX</td> <td>100,000</td> <td>40,000</td> <td>25,000</td> </tr> <tr> <td>Bakery</td> <td>XX-XXXXXX</td> <td>80,000</td> <td>20,000</td> <td>35,000</td> </tr> <tr> <td colspan="2">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.</td> <td>180,000</td> <td>60,000</td> <td>60,000</td> </tr> </tbody> </table>	Name of trade or business (a)	Identification number (b)	Qualified business income / (loss) (c)	Form W-2 wages (d)	UBIA (e)	Restaurant	XX-XXXXXX	100,000	40,000	25,000	Bakery	XX-XXXXXX	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
Name of trade or business (a)	Identification number (b)	Qualified business income / (loss) (c)	Form W-2 wages (d)	UBIA (e)																	
Restaurant	XX-XXXXXX	100,000	40,000	25,000																	
Bakery	XX-XXXXXX	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																	
	72																				

Slide 73 – Example 7, cont'd Schedule C

Example 7, 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
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-.			-
			73

Slide 74 – Example 7, cont'd Part 1

Example 7, 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-xxxxxx	
C Gas Station			xx-xxxxxx	
				74

Slide 75 – Example 7, cont'd Part 2

Example 7, 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	173,048	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		

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Slide 76 – Example 7, cont'd Part 3

Example 7, 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	-	-

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Slide 77 – Example 7, cont'd Part 4

Example 7, 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.		-
		77

Slide 78 – Penalties and Other Items

Penalties and
Other Items

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Slide 79 – Penalties

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.

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Slide 80 – Limitation of Section 461(i), Limitation on Excess Business Losses

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

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

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Slide 81 – Patron Reduction

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.

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Slide 82 – Agricultural & Horticultural Cooperatives

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.

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Slide 83 – Resources

Resources

- ❖ [IRS.gov/TaxReform](https://www.irs.gov/TaxReform)
- ❖ Treas. Reg §1.199A Qualified Business Income Deduction
- ❖ REG-134652-18 Proposed Regulations Qualified Business Income Deduction
- ❖ 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

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Slide 24 – Example 6 – Farming Continued




Example 6 – Farming Continued

Since the taxable income before the carryback is \$20,000, and the only modification on Schedule B is exemptions, the carryforward to 2017 would be as follows:

NOLD from 2018	48,000
Less Modified 2016 taxable income (\$20,000 taxable income + \$4,050 exemptions)	(24,050)
NOLD not absorbed in 2016	23,950
NOLD not used due to 80% limitation (\$50,000 NOLD less \$48,000)	2,000
NOL carried to 2017	25,950

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Slide 25 – New Provision – Exception #2 Nonlife Insurance Companies




New Provision – Exception #2 Nonlife Insurance Companies

As defined by IRC § 816(a)

- Such as Casualty and Property Insurance Companies
 - Continue to be subject to 2-year carryback,
 - 20-year carryforward rules, and
 - The 80% limitation does not apply
 - IRC § 172(b)(1)(C) and 172(f).

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Slide 26 – Example 7



Example 7

A MFJ Calendar-Year Taxpayer with Taxable income (loss) of (computed without any NOL carryover) is as follows:


- \$400,000 in Year A,
- \$100,000 in Year B
- (\$500,000) in Year C
- \$100,000 in Year D

Prior Law:
If year C is the year ended 12/31/2017, the taxpayer would be able to carry the NOL back to Year A, and assuming it is not absorbed, carry the remainder to Year B.

Current Law:
If year C is the year ended 12/31/2018 and the loss is not from farming or a nonlife insurance company, the NOL can only be carried forward to year D. The NOLD would be limited to \$80,000 (80% of \$100,000).

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Slide 27 – Summary



Summary


A business may have a net operating loss if its deductions for the year are more than its business income. TCJA limits the NOL deduction to 80 percent of taxable income for the year rather than allowing the loss to offset 100 percent of taxable income.

Most businesses can no longer carry back their NOLs to the prior two tax years as was allowed under prior law. Now, a business may carry forward an NOL indefinitely, rather than expiring after 20 years as was the case under prior law.

Farms and non-life insurance companies still have the option to carry back NOLs. Non-life insurance companies are not subject to the 80% limit.

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Slide 28 – Objectives



Objectives

You are now able to:

- Explain the Changes to the Net Operating Loss Deduction rules relating to TCJA
- Identify the Effective Dates
- Identify the Exceptions to the New Rules
- Compute a Net Operating Loss Deduction

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Qualified Business Income Deduction Basics

Foundation Formula = Lesser of:

20% (QBI from a QTB) +
20% (Qualified REIT Dividends + Qualified PTP Income)

OR

20% (Taxable Income, before QBID, - Net Capital Gain)

QBI – Qualified Business Income

QBID – Qualified Business Income
Deduction

2018* Threshold

\$157,500 or \$315,000 if MFJ

QTB – Qualified Trade or Business

*Adjusted annually for inflation

REIT – Real Estate Investment Trust

2018 Phase in Range

(\$50,000/\$100,000 MFJ)

PTP – Publicly Traded Partnership

Greater than \$157,500 to \$207,500

SSTB – Specified Service Trade or
Business

Greater than \$315,000 to \$415,000 if MFJ

UBIA – Unadjusted Basis Immediately
after Acquisition

DPAD - Domestic Production Activities
Deduction

Resources

- IRC 199A- Qualified Business Income Deduction KB Book – Form 1040 KB, Expenses and Deductions shelf.
<https://portal.ds.irsnet.gov/sites/vl010/lists/199aqualifiedbusinessincomededuction/landingview.aspx>
- SB/SE questions should be sent via encrypted email with all relevant information to sbse.qbid.199A@irs.gov.

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Issue Guide

Qualified Business Income Deduction

May 2019

Disclaimer: This is not an official publication of the IRS and should not be cited as authority.

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Qualified Business Income Deduction

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INTRODUCTION

The 2017 tax reform act, commonly known as the Tax Cut and Jobs Act or TCJA, [PUB. L. No. 115-97](#), is the largest tax bill enacted since 1986. The TCJA reduced the corporate tax rate from 35 percent to 21 percent. The TCJA also included new section 199A, which provides taxpayers other than C corporations with a new deduction for income earned from other business types, including sole proprietorships, partnerships and S corporations. This deduction, known as the section 199A deduction or the QBI deduction is the focus of this issue guide.

For tax years beginning after 2017 and ending before 2026, individual taxpayers and certain trusts and estates may be entitled to a deduction of up to 20 percent of their qualified business income (QBI) from a qualified trade or business (QTB), including income from a pass-through entity, but not from a C corporation, plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. Depending on the taxpayer's taxable income, the deduction is subject to multiple limitations including the type of trade or business, the amount of W-2 wages paid by the trade or business, and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. The deduction can be taken in addition to the standard or itemized deductions.

Income earned from providing services as an employee or by a C corporation is not eligible for the deduction.

REFERENCES

- [IRC § 199A](#)
- [Treas. Reg. § 1.199A-1 through -6](#)
- [Rev. Proc. 2019-11 - Determining W-2 Wages for QBI Purposes](#)
- [Notice 2019-07 - Safe Harbor for Certain Real Estate Enterprises](#)
- [Section 199A – Deduction for Qualified Business Income FAQs](#)

WHO MAY TAKE THE DEDUCTION?

INDIVIDUALS

Individuals with QBI, REIT dividends or PTP income may take a QBI deduction. See [How to Figure the Deduction](#) for more detailed information.

S CORPORATIONS AND PARTNERSHIPS

S corporations and partnerships are not eligible for the deduction. Instead, the deduction is determined at the shareholder or partner level. S corporations and partnerships must pass-through the necessary information to their shareholders or partners, so they may figure their deduction. This includes passing through the IRC 199A items reported to the pass-through by a lower-tier entity. S corporations and partnerships are required to report each shareholder's or partner's share of the following items separately for each trade or business (an entity may have more than one trade or business) engaged in by the entity on an attachment to Schedule K-1.

- Section 199A QBI*.
- Section 199A W-2 wages.
- Section 199A UBI of qualified property.
- Section 199A Qualified REIT dividends.
- Section 199A Qualified PTP income*.
- QBI allocable to a qualified payment received from a specified agricultural or horticultural cooperative.
- Passed-through domestic production activities deduction under section 199A(g) from a specified agricultural or horticultural cooperative.
- Whether each trade or business is a specified service trade or business.
- Disclosure of information for aggregated trades or businesses.

***Note:** A section 199A QBI and qualified PTP income amount was required in 2018. However, it was later determined that reporting just this item did not provide enough information to the shareholder or partner to determine their QBI or qualified PTP income, as the determination as to whether a separately stated item qualifies as QBI or qualified PTP income is determined at the shareholder level. Therefore, the S corporation's and partnership's instructions were updated in 2019 to require that each separately stated item that may potentially qualify as QBI or qualified PTP income be reported to the shareholder or partner.

A partnership or S corporation engaged in more than one trade or business may choose to aggregate multiple trades or businesses into a single trade or business for purposes of [IRC § 199A](#) if it meets the aggregation requirements, see [Aggregation of Business Operations](#). The pass-through entity's aggregations must be reported consistently for all subsequent years, unless there is a change in facts and circumstances that disqualify the aggregation. Failure to disclose the aggregations can cause them to be disaggregated.

WHO MAY TAKE THE DEDUCTION?

S CORPORATIONS AND PARTNERSHIPS (CONTINUED)

If the partnership or S corporation chooses to aggregate multiple trades or businesses, it reports the aggregation by filling out Schedule B – Aggregation of Business Operations, under Worksheet 12-A Specific Instructions, in the 2018 Pub. 535 or attaching a similar statement. It must attach a copy of Schedule B or similar statement to each of its owners' Schedules K-1.

Any direct or indirect owners of the pass-through entity that aggregates must attach a copy of the pass-through entity's aggregation to their return. The owners can't subtract from the trades or businesses aggregated by the pass-through entity but can add additional trades or businesses to the aggregation, assuming the aggregation rules are followed.

In addition, if the partnership or S corporation is a patron of a specified agricultural or horticultural cooperative, they must attach a statement to the Schedule K-1 showing the owner's distributive share of the QBI allocable to a qualified payment received from the specified agricultural or horticultural cooperative so the owner may compute the patron reduction under IRC § 199A(b)(7). They must also include the amount of any pass-through domestic production activities deduction under IRC § 199A(g)(2).

ESTATES AND TRUSTS

Some estates and trusts will claim the QBI deduction in the same manner as an individual while other estates and trusts will pass-through information to their beneficiaries so that the beneficiaries may figure their deduction, depending on the facts.

To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI, W-2 wages, and UBIA of qualified property with respect to the owned portion of the trust as if those items had been received directly by the owner. In the case of a non-grantor trust or estate, generally the trust or estate will figure the QBI deduction based on the QBI, W-2 wages, and UBIA of qualified property allocated to the estate or trust. To the extent these items are allocated to the beneficiaries, the estate or trust must report information to its beneficiaries in the same manner as an S corporation or partnership so that the beneficiaries may figure their deduction. In determining the QBI deduction or the amount that must be passed through to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year that is distributed or required to be distributed to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and UBIA of qualified are allocated entirely to the estate or trust.

WHO MAY TAKE THE DEDUCTION?

ESTATES AND TRUSTS (CONTINUED)

Although estates and trusts may compute their own QBI deduction, they must reduce the amounts reported as QBI, W-2 wages, and UBI to reflect the portion of those amounts that were allocated to beneficiaries.

For more information on trusts and estates, see [Treas. Reg. § 199A-6\(d\)](#).

SPECIFIED AGRICULTURAL AND HORTICULTURAL COOPERATIVES

Cooperatives, to which Part I of subchapter T apply, do not qualify for the QBI deduction under [IRC § 199A\(a\)](#). However, specified agricultural or horticultural cooperatives may qualify for the domestic production activities deduction (DPAD) under IRC § 199A(g) for tax years beginning after 2017, and ending before 2026.

Specified agricultural or horticultural cooperatives are cooperatives subject to part I of subchapter T that are engaged in the manufacturing, production, growth, or extraction in whole or significant part within the United States of any agricultural or horticultural product, or in the marketing of agricultural or horticultural products that have been manufactured, produced, grown, or extracted in whole or significant part within the United States by patrons of the specified agricultural or horticultural cooperative. IRC §199A(g)(3)(D) and (4).

DPAD equals the lesser of 9 percent of:

1. qualified production activities income, which equals the excess of the cooperative's domestic production gross receipts for the taxable year over the sum of the costs of goods that are allocable to the receipts and other expenses, losses, or deductions (other than the DPAD), which are properly allocable to the receipts (IRC § 199A(g)(3)(A)), or
2. taxable income, computed without regard to any deductions for distributions under [IRC § 1382\(b\) or \(c\)](#).

However, the resulting figure is limited to 50 percent of Form W-2 wages allocable to domestic production gross receipts. See [IRC § 199A\(g\)\(1\)\(B\)\(ii\)](#) for more information W-2 wages.

Note: the domestic production gross receipts are the gross receipts derived from any lease, rental, license, sale, exchange, or other disposition of any agricultural or horticultural product, which was manufactured, produced, grown, or extracted by the specified agricultural or horticultural cooperative (or its patrons in the case of a marketing specified agricultural or horticultural cooperative) in whole or significant part within the United States. IRC § 199A(g)(3)(D) and (4).

WHO MAY TAKE THE DEDUCTION?

SPECIFIED AGRICULTURAL AND HORTICULTURAL COOPERATIVES (CONTINUED)

A specified agricultural or horticultural cooperative can pass-through a portion of its DPAD to an eligible patron. An eligible patron is another specified agricultural or horticultural cooperative, an individual, or a pass-through entity. A C corporation is not an eligible patron. IRC § 199A(g)(2)(D).

The eligible patron's ability to deduct DPAD that is passed-through is limited by the patron's taxable income calculated without regard to the passed-through DPAD and after taking into account any deduction allowed to the patron under IRC § 199A(a) for the taxable year. IRC §199A(g)(2)(B).

A specified agricultural or horticultural cooperative must reduce its IRC § 1382 deduction by the amount of the DPAD allocated to its patrons.

For more information see the [Instructions to Form 8903](#) or its successor.

HOW TO FIGURE THE DEDUCTION

In general, the amount of the QBI deduction equals the QBI Component plus the qualified REIT/PTP Component. However, the deduction is limited to the lesser of this amount or 20 percent of taxable income minus net capital gain.

WORKSHEETS & FORMS

The QBI deduction is figured using one of two worksheets for 2018 or one of two forms for 2019 and later:

1. Taxpayers should use the Simplified Worksheet in the [Instructions for Form 1040](#) for 2018 or Form 8995 for all other years, if they have:
 - a. QBI, qualified REIT dividends, or qualified PTP income;
 - b. Taxable income before the QBI deduction is less than or equal to the threshold. For 2018, the threshold is \$157,500 (\$315,000 if married filing jointly). This amount is adjusted for inflation each subsequent year, see [Rev. Proc 2018-59](#) or its successor; and
 - c. The taxpayer isn't a patron in a specified agricultural or horticultural cooperative.
2. Taxpayers should use Worksheet 12-A in [Pub. 535](#) for 2018 and Form 8995-A for all other years, if they have:
 - a. QBI, qualified REIT dividends, or qualified PTP income, and
 - b. 2018 taxable income before QBI deduction is greater than \$157,500 (\$315,000 if married filing jointly), this amount is adjusted for inflation each subsequent year, see [Rev. Proc 2018-59](#) or its successor; or
 - c. The taxpayer is a patron in a specified agricultural or horticultural cooperative.

HOW TO FIGURE THE DEDUCTION (CONTINUED)

TAXABLE INCOME LIMITATION

The taxpayer's total qualified business income deduction (or the QBI Component plus the REIT/PTP Component) is limited to 20 percent of taxable income, calculated before the QBI deduction, less net capital gain. For an individual filing 2018 Form 1040, taxable income equals Form 1040, line 7, *Adjusted gross income*, minus Form 1040, line 8, *Standard deduction or itemized deductions*.

For the 2018 Form 1041, taxable income for the portion attributable to the trust equals Form 1041, line 22, *Taxable income*, plus the amount of the QBI deduction included on Form 1041, line 15a, *Other deductions*.

Net Capital Gain

For purposes of the QBI deduction, net capital gain equals the taxpayer's qualified dividends plus their net long-term capital gain reduced by their net short-term capital loss, but not below zero. For 2018 this information can be obtained from the following lines on Form 1040.

- For taxpayers not required to file Schedule D (Form 1040), add
 - The qualified dividends from Form 1040, line 3a, plus
 - Any gain reported on Schedule 1 (Form 1040), line 13, *Capital gain or (loss)*.
- For taxpayers that file Schedule D (Form 1040), add
 - The qualified dividends from Form 1040, line 3a, plus
 - The smaller of Schedule D (Form 1040), line 15, *Net long-term capital gain or (loss)* or line 16, unless either line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.

For the 2018 Form 1041 *U.S. Income Tax Return for Estates and Trusts*, the net capital gain information for the portion attributable to the trust deduction can be determined as follows:

- For trusts not required to file Schedule D (Form 1041),
 - The qualified dividends allocable to the trust from Form 1041, line 2(b)(2).
- For trusts that file Schedule D (Form 1041), add
 - The qualified dividends allocable to the trust from Form 1041, line 2(b)(2), plus
 - The smaller of Schedule D (Form 1041), line 18a(2), *Estate's or trust's total for year Net long-term gain or (loss)* or line 19(2), *Estate's or trust's total net gain or (loss)*, unless either line 18(a)(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.

HOW TO FIGURE THE DEDUCTION (CONTINUED)

QBI COMPONENT

The QBI Component is generally the net amount of 20 percent of QBI from each QTB engaged in by the taxpayer. However, if the taxpayer's taxable income, before the QBI deduction, exceeds the threshold amount, the 20 percent of QBI for each trade or business may be partially or fully reduced to the greater of 50 percent of wages from the QTB, or 25 percent of wages plus 2.5 percent of the UBIA of qualified property from the QTB. In applying the reduction, taxpayers with an ownership in a pass-through entity only take into account their allocable share of W-2 wages and UBIA of qualified property as reported to them by the through pass-through entity. See [Reductions to the QBI Component](#).

In addition, if the taxpayer is a patron of a specified agricultural or horticultural cooperative and the QBI Component includes a qualified payment from the specified agricultural or horticultural cooperative, the taxpayer's QBI deduction related to that QTB must be reduced by the lesser of:

- 9 percent of the QBI allocable to the qualified payment, or
- 50 percent of W-2 wages from the trade or business of the taxpayer that is allocable to the qualified payment.

Qualified Trades or Businesses

Qualified trades and businesses include [IRC § 162](#) trades or businesses, other than trades or businesses conducted through a C corporation, trade or business of performing services as an employee, and for taxpayers with taxable income above the threshold and phase-in range, specified service trades or businesses.

In general, an activity qualifies as a trade or business if the primary purpose for engaging in the activity is for income or profit and the activity is conducted with continuity and regularity. If the taxpayer owns an interest in a pass-through entity, the trade or business determination is made at that entity's level. For purposes of IRC § 199A, the taxpayer is not required to materially participate in the activity.

HOW TO FIGURE THE DEDUCTION

QBI COMPONENT

Qualified Trades or Businesses (continued)

Rental of Real Property

The ownership and rental of real property may constitute a trade or business if it rises to the level of an IRC § 162 trade or business. Also, the rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business for purposes of [IRC § 199A](#) regardless of whether the rental or licensing rises to the level of a § 162 trade or business. [Treas. Reg. § 1.199A-1\(b\)\(14\)](#).

In addition, a rental real estate enterprise may be treated as a trade or business for purposes of the QBI deduction if it meets the proposed safe harbor qualifications in [Notice 2019-07](#). Taxpayers may rely on the proposed safe harbor until a revenue procedure finalizing the safe harbor is issued. A rental real estate enterprise that does not meet the requirements of the safe harbor may still be considered a trade or business for purposes of IRC § 199A if it is an IRC § 162 trade or business.

For purposes of the safe harbor, a rental real estate enterprise is an interest in real property held for the production of rents. The interest must be held directly or through a disregarded entity by the individual or relevant pass-through entity relying on the safe harbor. Multiple properties can be treated as a single enterprise as long as all similar properties are treated as part of the same enterprise. Commercial and residential real estate may not be part of the same enterprise. Real estate rented or leased under a triple net lease or used by the taxpayer as a residence under section 280A for any part of the year is not eligible for the safe harbor.

To qualify for the safe harbor, the following requirements must be satisfied:

- Separate books and records must be maintained reflecting income and expenses for each rental real estate enterprise;
- 250 or more hours of rental services must be performed annually by the owner of the enterprise or by employees, agents, and independent contractors of the owner. Rental services include advertising to rent or lease the real estate; negotiating and executing leases; verifying information contained in prospective tenant applications; collection of rent; daily operation, maintenance, and repair of the property; management of the real estate; purchase of materials; and supervision of employees and independent contractors; and
- For taxable year 2019 and after, contemporaneous records must be maintained regarding hours of all services performed; descriptions of the services; dates the services were performed; and who performed the services.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Qualified Trades or Businesses

Rental of Real Property (continued)

Note: Once a taxpayer relies on the safe harbor to treat its rental real estate enterprise as a trade or business, they may not vary from this treatment unless there has been a significant change in facts and circumstances.

Taxpayers relying on this safe harbor must include a statement attached to their return saying that the requirements of the safe harbor have been satisfied. The statement must be signed by the taxpayer or an authorized representative and provide that “Under penalties of perjury, I (we) declare that I (we) have examined the statement, and , to the best of my (our) knowledge and believe, the statement contains all the relevant facts relating to the revenue procedure, and such facts are true, correct and complete.” For more information see [Notice 2019-07](#).

Services Performed as an Employee Excluded

The trade or business of performing services as an employee is not a trade or business for purposes of the QBI deduction. Therefore, any amounts reported in box 1 of [Form W-2](#), other than amounts reported in box 1 where the “Statutory Employee” box in box 13 is checked, are not QBI. Statutory employees are individuals who are not common law employees (and for this reason are not in the trade or business of performing services as an employee) but, under [IRC § 3121\(d\)\(3\)](#), are treated as employees for purposes of certain employment taxes. These individuals report gross income and deductions attributable to their trade or business on Form 1040, Schedule C, *Profit or Loss from Business* and are eligible for the QBI deduction subject to limitations under [Treas. Reg. § 1.199A-5\(d\)\(1\)](#).

Taxpayers who were previously an employee of a business and continue to provide substantially the same services to that business after they are no longer treated as an employee, are presumed to be providing services as an employee for purposes of the QBI deduction for the 3-year period after ceasing to be an employee. Under [Treas. Reg. § 1.199A-5\(d\)\(3\)\(ii\)](#), taxpayers may rebut this presumption by providing records such as contracts or partnership agreements that corroborate their status as non-employees upon notice from the IRS.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Qualified Trades or Businesses (continued)

Specified Service Trade or Business Excluded

Specified service trades or businesses generally are excluded from the definition of QTB if the taxpayer's taxable income exceeds the threshold and phase-in range. Therefore, no QBI (including negative QBI), W-2 wages, or UBIA of qualified property from the specified trade or business are taken into account in figuring the QBI deduction. Whether a trade or business is a specified service trade or business is determined at the trade or business level. If the specified service trade or business is conducted by the taxpayer's pass-through entity, the same limitation applies to the pass-through items regardless of whether the taxpayer is a passive owner or materially participates in the business.

Exception 1: If taxable income before the QBI deduction isn't more than the threshold of \$157,500 (\$315,000 if married filing jointly), threshold adjusted yearly for inflation under [Rev. Proc 2018-59](#) or its successor, the specified service trade or business is treated as a QTB, and thus may generate income eligible for the QBI deduction.

Exception 2: If taxable income before the QBI deduction is more than the threshold of \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly), threshold adjusted yearly for inflation under [Rev. Proc 2018-59](#) or its successor, an applicable percentage of the specified service trade or business is treated as a QTB. For more information on the applicable percentage, see the [Applicable Percentage of SSTB](#).

A specified service trade or business is any trade or business providing services in the fields of:

- Health, including physicians, nurses, dentists, veterinarians, physical therapists, psychologists, and other similar healthcare professionals. However, it excludes services not directly related to a medical services field, such as the operation of health clubs or spas; payment processing; or the research, testing, manufacture, and sale of pharmaceuticals or medical devices;
- Law, including lawyers, paralegals, legal arbitrators, mediators, and similar professionals. However, it excludes services that do not require skills unique to the field of law such as services by printers, delivery services, or stenography services;
- Accounting, including accountants, enrolled agents, return preparers, financial auditors, and similar professionals;
- Actuarial science, including actuaries, and similar professionals;

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Qualified Trades or Businesses

Specified Service Trade or Business Excluded (continued)

- Performing arts, including actors, directors, singers, musicians, entertainers, and similar professionals. However, it excludes services that don't require skills unique to the creation of performing arts, such as the maintenance and operation of equipment or facilities for use in the performing arts or the provision of services by persons who broadcast video or audio of performing arts to the public;
- Consulting, including providing advice and counsel with the intention of influencing decisions made by a government or governmental agency and all attempts to influence legislators and other government officials on behalf of a client by lobbyists, and other similar professionals. However, it excludes the performance of services other than advice or counsel, such as sales, training or educational courses. It also excludes embedded or ancillary services that are otherwise not SSTBs, if there is no separate payment for the services;
- Athletics, including athletes, coaches, and managers in sports such as baseball, basketball, football, soccer, hockey, martial arts, boxing, bowling, tennis, golf, snow-boarding, track and field, billiards, racing, and other athletic performance. However, it excludes services that do not require skills unique to athletic competition, such as the maintenance and operation of equipment or facilities for use in athletic events or the provision of services by persons who broadcast video or audio of athletic events to the public;
- Financial services, including managing wealth, advising clients with respect to finances, developing retirement plans, developing wealth transition plans, the provision of advisory and other similar services regarding valuations, mergers, acquisitions, dispositions, restructuring (including in title 11 or similar cases), and raising financial capital by underwriting, or acting as a client's agent in the issuance of securities, and similar services. This includes services provided by financial advisors, investment bankers, wealth planners, retirement advisors, and other similar professionals. However, it excludes taking deposits or making loans, but does include arranging lending transactions between a lender and borrower;
- Brokerage services, including services in which a person arranges transactions between a buyer and a seller with respect to securities as defined in [IRC § 475\(c\)\(2\)](#) for a commission or fee including services provided by stock brokers and other similar professionals. However, it excludes real estate agents and brokers, or insurance agents and brokers;

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Qualified Trades or Businesses

Specified Service Trade or Business Excluded (continued)

- Investing and investment management, where a fee is received for providing investing, asset management, or investment management services, including providing advice with respect to buying and selling investments. However, it excludes the service of directly managing real property;
- Trading, including the trade or business of trading in securities (as defined in [IRC § 475\(c\)\(2\)](#)), commodities (as defined in IRC § 475(e)(2)), or partnership interests;
- Dealing in securities, including dealing in securities (as defined in IRC § 475(c)(2)), commodities (as defined in IRC § 475(e)(2)), or partnership interests;
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees, as demonstrated by:
 - Receiving fees, compensation, or other income for endorsing products or services;
 - Licensing or receiving fees, compensation or other income for the use of an individual's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; or
 - Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

De minimis rule 1—If the taxpayer's gross receipts from a trade or business are \$25 million or less and less than 10 percent of the gross receipts are from the performance of services in a specified service field, then the trade or business is not considered a specified service trade or business, and thus may generate income eligible for the QBI deduction for the tax year.

De minimis rule 2—If the taxpayer's gross receipts from a trade or business are more than \$25 million and less than 5 percent of the gross receipts are from the performance of services in a specified service field, then the trade or business is not considered a specified service trade or business, and thus may generate income eligible for the QBI deduction for the tax year.

In addition, if the taxpayer's trade or business provides services or property to an SSTB and there is 50 percent or more common ownership of the trades or businesses, that portion of the services or property provided to the SSTB are treated as a separate SSTB with respect to the related parties.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT (CONTINUED)

Qualified Business Income

QBI includes items of income, gain, deduction, and loss from any trades or businesses (or aggregated trade or business) that are effectively connected with the conduct of a trade or business within the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, and certain trusts that are included or allowed in determining taxable income for the year. It also includes other deductions attributable to the trade or business including, but not limited to, deductible tax on self-employment income, self-employed health insurance, contributions to qualified retirement plans, unreimbursed partnership expenses and interest expense for the purchase of the partnership/S corporation interest/stock.

Note. QBI doesn't include any losses or deductions disallowed under the basis, at-risk, passive loss, or [IRC § 461\(l\)](#) limitations, as they aren't included or allowed in determining taxable income for the year. Instead, these losses and deductions are taken into account in the tax year they are included in determining taxable income. Loss and deduction items that were generated prior to 2018, that are included in income during the year, are not included in QBI.

QBI doesn't include any of the following.

- Items that aren't properly includible in income.
- Investment items such as capital gains or losses, or dividends.
- Interest income, other than interest income properly allocable to a trade or business (interest income attributable to an investment of working capital, reserves, or similar accounts is not properly allocable to a trade or business).
- W-2 income. See [Services Performed as an Employee Excluded](#).
- Income that isn't effectively connected with the conduct of business within the United States. (For more information, go to IRS.gov and type in the key words "effectively connected income.")
- Commodities transaction or foreign currency gains or losses described in [IRC § 954\(c\)\(1\)\(C\) or \(D\)](#).
- Income, loss, or deductions from notional principal contracts under IRC § 954(c)(1)(F).
- Annuities (unless received in connection with the trade or business).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments.
- Payments received by a partner for services under [IRC § 707\(a\)](#).

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Qualified Business Income (continued)

- Qualified REIT dividends, which are includible in the REIT/PTP Component.
- Qualified PTP income or loss, which is includible in the REIT/PTP Component.

Loss Netting

If any of trade or business or aggregation has a net loss for the current year or the taxpayer has a qualified business net loss carryforward from prior years, the loss must offset the net income from the other trades or businesses. See [Example 3](#). Further, the net loss must be apportioned among all the trades or businesses with net income in proportion to that trade or business' net income. See the [Comprehensive Example](#), step 3.

Note. If the taxpayer has an overall net loss for the year, they don't qualify for a QBI deduction in the current year and the net loss is carried forward and treated as a separate trade or business that reduces QBI in the succeeding taxable years.

Reductions to the QBI Component

Although [IRC § 199A](#) provides for a deduction of up to 20 percent of the QBI Component, reductions may apply that decrease the amount of the QBI Component. The QBI Component is partially or fully reduced when the taxpayer's taxable income, before the QBI deduction, exceeds the threshold. If taxable income, before the QBI deduction, is:

- [At or below the threshold](#), the QBI Component is not reduced,
- [Above the threshold and phase-in range](#), the full reduction applies,
- [Above the threshold but within the phase-in range](#), the reduction is phased-in.

The full reduction limits the QBI Component to the greater of 50 percent of wages from the QTB, or 25 percent of wages plus 2.5 percent of the UBIA of qualified property from the QTB. The partial reduction is phased-in based upon the amount by which the taxpayer's taxable income exceeds the threshold but does not exceed the phase-in range.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component (continued)

W-2 Wages

There are three steps to determine W-2 Wages for the purpose of applying the W-2 wage limitation. First, determine the total W-2 wages paid for the year, using one of the three methods described below. Second, if the taxpayer conducts more than one trade or business, the W-2 wages must be allocated to the trades or business that generated the wages in the same manner as the expenses associated with those wages. Third, determine the amount of wages with respect to each trade or business that are properly allocable to QBI of the trade or business (or aggregated trade or business). W-2 wages are properly allocable to QBI if the associated wage expense is taken into account in computing QBI under [Treas. Reg. § 1.199A-3](#).

The total W-2 wages paid for the year in step one, generally include amounts paid to employees reported in box 1 of Form W-2, plus certain elective deferrals relating to qualified plan contributions (e.g., contributions to 401(k) plans and Roth IRA contributions). However, amounts paid to statutory employees when the “Statutory Employee” box in box 13 is checked are not W-2 wages. In addition, W-2 wages do not include any amount that is not properly included in a return filed with the SSA on or before the 60th day after the due date (including extensions) for the Form W-2. Under [Rev. Proc. 2019-11](#), there are three methods to figure W-2 wages timely filed with the SSA and paid to officers of an S corporation and common law employees (“relevant Forms W-2”):

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

Unmodified Box Method

Under the unmodified box method, W-2 wages are the smaller of:

1. The sum of the amounts reported in box 1 of the relevant Forms W-2, or
2. The sum of the amounts reported in box 5 of the relevant Forms W-2.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component

W-2 Wages (continued)

Modified Box 1 Method

Under the modified box 1 method, W-2 wages are figured as follows.

1. Combine the amounts reported in box 1 of the relevant Forms W-2.
2. Combine all the amounts that have been included in box 1 of the relevant Forms W-2 that are not considered wages for federal income tax withholding purposes (§ 3401), including:
 - a. Supplemental unemployment compensation benefits within the meaning of Rev. Rul. 90-72.
 - b. Sick pay or annuity payments.
3. Subtract (2) from (1).
4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
5. Add (3) and (4).

Tracking Wages Method

Under the tracking wages method, W-2 wages are figured as follows.

1. Add the amounts that are wages for federal income tax withholding purposes and that are also reported in box 1 of the relevant Forms W-2.
2. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
3. Add (1) and (2).

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component

W-2 Wages (continued)

Short Tax Year

If there is a short tax year, use only the amounts properly reported and paid (or deferred) during that short tax year. If the short tax year doesn't include a calendar year ending with or within that short tax year, then wages properly reported on Form W-2 that were paid (or deferred) during the short tax year are treated as W-2 wages for that short tax year if they otherwise meet the requirements to be included in the W-2 wage limitation. [Treas. Reg. 1.199A-2\(b\)\(2\)\(iv\)\(C\)](#).

Acquisition or Disposition of a Trade or Business

If the taxpayer acquires or disposes of a trade or business that causes it and another employer to pay W-2 wages to employees of the acquired or disposed of trade or business during the calendar year, then the W-2 wages for the calendar year of the acquisition or disposition are allocated between each employer based on the period that the employees of the acquired or disposed of trade or business were employed by each employer. If the taxpayer has a short tax year that doesn't include a calendar year ending within their short tax year, see [Short Tax Year](#), earlier.

Non-Duplication Rule

Amounts that are treated as W-2 wages for a tax year under any method can't be treated as W-2 wages for any other tax year. Also, an amount can't be treated as W-2 wages by more than one trade or business.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component (continued)

Unadjusted Basis Immediately After Acquisition

For purposes of determining UBIA for all qualified property, the unadjusted basis immediately after acquisition means the basis on the placed-in-service date. Qualified property includes all tangible property subject to depreciation under [IRC § 167](#) that is held and used by the trade or business (or aggregated trade or business) during and at the close of the tax year, for which the depreciable period hasn't 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 [IRC § 168\(c\)](#), regardless of the application of IRC § 168(g). Additional first-year depreciation, such as bonus depreciation, doesn't affect the applicable recovery period.

Improvements to Property

Improvements to property are treated as a separate qualified property.

Like-Kind Exchanges and Involuntary Conversion

For qualified replacement property acquired in a section 1031 exchange that is of a like-kind to the qualified relinquished property, or for qualified replacement property acquired in a section 1033 involuntary conversion that is similar or related in service or use to the qualified converted property, the UBIA of the qualified replacement property is the same as the UBIA of the qualified property exchanged or converted, decreased by excess boot or increased by the amount of money paid or the fair market value of property transferred by the taxpayer that is not of a like-kind or similar or related in service or use. In addition, the depreciable period of the qualified like-kind replacement property acquired in the section 1031 exchange or the qualified replacement property that is similar or related in service or use to the converted property acquired in an involuntary conversion generally ends on the same date as the relinquished or converted property, except to the extent the taxpayer has excess UBIA in the qualified replacement property. The depreciable period of any excess UBIA of the replacement property is determined using the date on which the replacement property is first placed in service.

Property Received in Non-Recognition Transaction

Generally, property received in a non-recognition transaction (for example, [IRC §§ 332, 351, 361, 721, or 731](#)) retains the same UBIA and placed-in-service date as that of the transferor. However, for the portion of the transferee's UBIA that exceeds the transferor's UBIA, the portion is treated as a separate qualified property placed in service on the date of the transfer.

Property Acquired 60 days Before Year End

Property acquired within 60 days of the year end that is disposed within 120 days without being used by the trade or business for at least 45 days generally isn't qualified property.

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component (continued)

Threshold Amount and Phase-In Range

For 2018, the taxable income threshold is \$315,000 for married individuals filing jointly and \$157,500 for all other taxpayers. These amounts are adjusted for inflation each year. For the inflation adjustments see [Rev. Proc 2018-59](#) or its successor.

The phase-in range is determined by taking the threshold amount plus \$100,000 for married individuals filing jointly or \$50,000 for all other taxpayers. Therefore, the phase-in range is:

- From \$315,000.01 to \$415,000 for married individuals filing jointly, and
- From \$157,500.01 to \$207,500 for all other taxpayers.

At or Below the Threshold

For taxpayers with taxable income at or below the threshold, the reduction to 20 percent of QBI is not applicable. The QBI deduction is simply the QBI Component plus the REIT/PTP Component, limited to 20 percent of taxable income (calculated before the QBI deduction) less net capital gains. However, if the taxpayer is a patron of a specified agricultural or horticultural cooperative the QBI Component is reduced by the [Patron Reduction](#).

Example 1 – At or Below the Threshold with Net Capital Gains

Abel, an unmarried individual, operates a bakery as a sole proprietorship. In 2018, the business generated \$100,000 of QBI. Abel has \$7,000 in net capital gains. After allowable deductions not relating to the business, Abel's total taxable income, prior to the QBI deduction, is \$81,000, which is below the 2018 threshold of \$157,500. Abel's QBI deduction is \$14,800, computed as follows:

QBI deduction is limited to the lesser of:

- $20\% \times \$100,000$ (QBI) = \$20,000, or
- $20\% \times [\$81,000$ (TI) - \$7,000 (NCG)] = **\$14,800**

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component

At or Below the Threshold (continued)

Example 2 – At or Below the Threshold with REIT & PTP

John, a married individual filing jointly, operates a bar as a sole proprietorship. In 2018, the business generated \$200,000 of QBI. John has REIT dividends of \$1,000 and qualified PTP income of \$500. After allowable deductions not relating to the business, John's total taxable income, prior to the QBI deduction, is \$270,000, which is below the 2018 threshold of \$315,000. John's QBI deduction is \$40,300, computed as follows:

QBI deduction is limited to the lesser of:

- 20% times \$200,000 (QBI) plus 20% of (\$1,000 REIT dividends and \$500 PTP income) = **\$40,300**, or
- 20% times \$270,000 (TI) = \$54,000

For more information on REIT dividends or PTP income see [REIT / PTP Component](#), below.

Example 3 – At or Below the Threshold with Loss Netting from Multiple Businesses

Sue, a married individual filing jointly, operates a book store and a coffee shop. In 2018, the book store generated \$200,000 of QBI and the coffee shop generated a QBI loss of (\$60,000). After allowable deductions not relating to the business, Sue's total taxable income, prior to the QBI deduction, is \$270,000, which is below the 2018 threshold of \$315,000. Sue's QBI deduction is \$28,000, computed as follows: First, net the QBI with the loss, \$200,000 - \$60,000 = \$140,000.

Then, the QBI deduction is limited to the lesser of:

- 20% times \$140,000 (QBI) = **\$28,000**, or
- 20% times \$270,000 (TI) = \$54,000

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component (continued)

Above the Threshold and Phase-in Range

For taxpayers with taxable income above the threshold and phase-in range, the computation for the QBI deduction is adjusted as follows:

1. SSTB is excluded from the definition of QTB, resulting in the items from SSTB's being excluded from QBI,
2. W-2 wage and UBIA limitations apply, and
3. QBI Component is reduced by the Patron Reduction.

Taxpayers above the threshold and phase-in range do not get to include any portion of their SSTBs as QTBs. So, all items from an SSTB are excluded in determining the QBI deduction. In addition, QBI for each QTB is limited based on W-2 wages paid by the QTB and/or the UBIA of qualified property used by the QTB. The limitation provides that the QBI for each QTB is limited to the lesser of:

- 20% of QBI from the QTB, 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 held for use in the QTB.

In addition, the QBI Component is reduced by the [Patron Reduction](#) if they are a patron in a specified agricultural or horticultural cooperative.

Example 4 – Above the Threshold and Phase-In – Wage/UBIA Reduction

Don owns several parcels of land that he manages and operates as suburban parking lots. He reports \$1 million of QBI, he paid no W-2 wages, and has no UBIA. His taxable income (before QBID) is \$980,000.

Because his taxable income is above the threshold plus the phase-in range, his 20% of QBI is limited to the greater of: 50% of wages or 25% of wages plus 2.5% of UBIA. As wages and UBIA are zero his 20% of QBI and QBI deduction are reduced to zero as follows.

QBI deduction is limited to the lesser of:

- $20\% \times \$1,000,000$ (QBI) = \$200,000,
limited to the greater of:
 - $50\% \times \$0$ (wages) = \$0, or
 - $25\% \times \$0$ (wages) + $2.5\% \times \$0$ (UBIA) = \$0
- OR
- $20\% \times \$980,000$ (TI) = \$196,000

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

Reductions to the QBI Component (continued)

Above the Threshold but Within the Phase-In Range

For taxpayers with taxable income above the threshold, but within the phase-in range, the computation for the deduction is adjusted as follows:

1. QBI is reduced by the applicable percentage for SSTB,
2. W-2 wage and UBIA of qualified property limitations are phased in, and
3. The QBI Component is reduced by the Patron Reduction.

Taxpayers above the threshold, but within the phase-in range are allowed to consider a portion of their SSTB business as a QTB. Their W-2 wage and UBIA of qualified property limitations are phased-in. And, their QBI Component is reduced by the [Patron Reduction](#) if they are a patron in a specified agricultural or horticultural cooperative.

Applicable Percentage of SSTB

Taxpayer's with taxable income above the threshold but within the phase-in range can include an "applicable percentage" of QBI, W-2 wages, and UBIA of qualified property from an SSTB in their QBI computation. The applicable percentage is computed as follows:

$$100\% \text{ Less } \frac{\text{Taxable Income* Less Threshold}}{\text{Total Phase-In Range}} = \text{Applicable Percentage}$$

* Computed before the QBI deduction.

Example 5 – Within the Phase-In, SSTB 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 wages of \$65,000. His applicable percentage is:

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

Thus, the amount of QBI and wages allowable in computing Tom's QBI deduction are computed as follows:

- QBI: \$172,000 x 65% = \$111,800
- Wages: \$65,000 x 65% = \$42,250

HOW TO FIGURE THE DEDUCTION?

QBI COMPONENT

REDUCTIONS TO THE QBI COMPONENT

ABOVE THE THRESHOLD BUT WITHIN THE PHASE-IN RANGE (CONTINUED)

Phased-in Reduction

Taxpayers with taxable income above the threshold but within the phase-in range may be required to reduce the QBI from a QTBI because of the W-2 wage and UBIA of qualified property limitations. The phase-in reduction is computed as follows:

$$20\% \text{ QBI} - \begin{array}{l} \text{The greater of:} \\ \text{a) } 50\% \text{ of Wages, or} \\ \text{b) } 25\% \text{ of Wages} + 2.5\% \text{ of UBIA} \end{array} \times \frac{\text{Taxable Income}^* - \text{Threshold}}{\text{Total Phase-In Range}}$$

*Computed before the QBI deduction

Example 6 – Within the Phase-In, Phased-In Reduction

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

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

His phase-in reduction is computed as follows:

$$36,000 (180,000 \times 20\%) - 27,500^* \times \frac{199,000 - 157,500}{50,000} = \$7,055$$

* The greater of:

- $(55,000 \times 50\%) = \mathbf{\$27,500}$ or
- $(55,000 \times 25\%) + (150,000 \times 2.5\%) = \$17,500$

Applying the phase-in reduction of \$7,055 to the 20% of QBI, Bob's QBI deduction is \$28,945. This is computed by taking the lesser of:

- 20% of QBI: $(180,000 \times 20\%) - 7,055 = \mathbf{\$28,945}$
- 20% of TI – NCG: $(199,000 \times 20\%) = \$39,800$

HOW TO FIGURE THE DEDUCTION? (CONTINUED)

REIT/PTP COMPONENT

The qualified REIT/PTP Component equals 20 percent of the qualified REIT dividends and qualified PTP income or loss (including the taxpayer's share of REIT dividends and PTP income or loss from relevant pass-through entities (RPEs)).

Determining REIT Dividends

Qualified REIT dividends include any dividend received from a real estate investment trust held for more than 45 days and for which the payment is not obligated to someone else and that isn't a capital gain dividend under [IRC § 857\(b\)\(3\)](#) and isn't a qualified dividend under [IRC § 1\(h\)\(11\)](#), plus the qualified REIT dividends received from a regulated investment company (RIC). This amount is reported to the taxpayer on [Form 1099-DIV](#), line 5.

Determining PTP Income/(Loss)

Qualified PTP income/(loss) includes the taxpayer's share of qualified items of income, gain, deduction, and loss from a PTP. It also may include gain or loss recognized on the disposition of the partnership interest that isn't treated as a capital gain or loss. It doesn't include any loss or deduction disallowed in determining taxable income for the year.

Note. PTP income generated by an SSTB may be limited to the applicable percentage if the taxpayer's taxable income is within the phase in-range or completely excluded from qualified PTP income if their taxable income is above the phase-in range. See [Above the Threshold and Phase-in Range](#) or [Above the Threshold but Within the Phase-In Range](#).

PTP Loss Netting

Losses generated by a PTP are netted with REIT dividends. If the combined amount of REIT dividends and qualified PTP income/loss is less than zero, then the taxpayer's REIT/PTP Component is zero for the taxable year. Any negative amount must be carried forward and used to offset REIT dividends and qualified PTP income in the succeeding taxable years.

AGGREGATION OF BUSINESS OPERATIONS

An individual or RPE may be engaged in more than one trade or business. Each trade or business, including those operated in the same or separate entities, is a separate trade or business for purposes of applying the W-2 wage limitation or the UBIA limitation. However, a taxpayer may choose to aggregate multiple trades or businesses into a single trade or business for purposes of applying the W-2 wage and UBIA limitations if they met the following requirements.

1. The taxpayer or a group of persons directly or indirectly own 50 percent or more of each trade or business for a majority of the tax year, including the last day of the taxable year, and all trades or businesses use the same tax year end,
2. None of the trades or business are a specified service trade or business, and
3. The trades or business meet at least two of the following factors.
 - a. They provide products, property, or services that are the same or that are customarily offered together.
 - b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
 - c. They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

If an RPE aggregates multiple trades or businesses, the taxpayer must attach the RPE's aggregations to their Schedule B. They may not subtract from the trades or businesses aggregated by the RPE but may add additional trades or businesses to the aggregation, assuming the rules above are met. If a taxpayer chooses to aggregate multiple trades or businesses, they must attach a statement to their return for 2018 reporting the aggregation or must fill out and attach Form 8995A, Schedule B after 2018.

The aggregations must be reported consistently for all subsequent years, unless there is a change in facts and circumstances that disqualify the aggregation. Schedule B must be completed each year to show the trade or business aggregations and must include any aggregation of a RPE in which the taxpayer holds a direct or indirect interest. Failure to disclose such aggregations may cause them to be disaggregated.

Note. The taxpayer must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wage and UBIA limitations.

COMPEHENSIVE EXAMPLE

Example 7 illustrates all the concepts and rules of the QBI deduction discussed above.

Example 7 – 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.

Fred's taxable income is \$205,500, which includes \$2,000 of net capital gains and \$500 of 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

As Fred's taxable income is above the threshold but below the phase-in range, he is subject to a few limitations.

Step 1 - Applicable percentage of SSTB. Fred's accounting firm is an SSTB. Therefore, he must determine the applicable percentage of his SSTB items.

$$100\% - \frac{205,500 - 157,500}{50,000} = 4\%$$

Thus, the amount of QBI and wages allowable from the accounting firm in computing Fred's QBI deduction are computed as follows:

- QBI: \$30,000 x 4% = \$1,200
- Wages: \$25,000 x 4% = \$1,000

Step 2 – Aggregation of business operations. Fred has chosen to aggregate the restaurant and bakery, named Aggregation 1, as follows:

Trade or Business	TIN	Qualified Business Income (loss)	Wages	UBIA
Restaurant	xx-xxxxxxx	100,000	40,000	25,000
Bakery	xx-xxxxxxx	80,000	20,000	35,000
Total		180,000	60,000	60,000

COMPEHENSIVE EXAMPLE (CONTINUED)

Example 7 (continued)

Step 3 – Loss netting.

Fred's gas station generated a loss; therefore, the loss must be netted against the income of his other trades or businesses.

Trade or Business	QBI/(loss)	Reduction	Adjusted QBI
Aggregation 1	180,000	(6,954)*	173,046
Accounting Firm	1,200	(46)**	1,154
Gas Station	(7,000)		0

$$*180,000/(180,000 + 1,200) \times (7,000) = (6,954)$$

$$**1,200/(180,000 + 1,200) \times (7,000) = (64)$$

Step 4 – Phased in reduction.

As Fred's taxable income is above the threshold but below the phase-in range, his 20% QBI is partially reduced by the phased-in reduction for any trade or business where the limitation (wage or UBIA) is smaller than the 20% QBI.

	Aggregation 1	Accounting Firm	Gas Station
20% QBI	34,609 (173,046 x 20%)	231 (1,154 x 20%)	0 (\$0 x 20%)
50% wages	30,000 (60,000 x 50%)	500 (1,000 x 50%)	0
25% wages + 2.5% UBIA	16,500 (60,000 x 25% + 60,000 x 2.5%)	250 (500 x 25% + \$0 x 2.5%)	0
	Limited	Not Limited	Not Applicable

Only Fred's Aggregation 1 trade or business is subject to the phase-in reduction, because it is the only one where the limitation is smaller than the 20% QBI. The phased-in reduction is computed as follows:

$$20\% \text{ QBI} - \begin{matrix} \text{The greater of:} \\ \text{a) } 50\% \text{ of Wages, or} \\ \text{b) } 25\% \text{ of Wages} + 2.5\% \text{ of UBIA} \end{matrix} \times \frac{\text{Taxable Income}^* - \text{Threshold}}{\text{Total Phase-In Range}}$$

Reduction for Aggregation 1:

$$\begin{matrix} 34,609 \\ (173,046 \times 20\%) \end{matrix} - 30,000^* \times \frac{205,500 - 157,500}{50,000} = \$4,425$$

* The greater of:

- (60,000 x 50%) = **\$30,000** or
- (60,000 x 25%) + (60,000 x 2.5%) = \$16,500

COMPEHENSIVE EXAMPLE (CONTINUED)

Example 7 (continued)

Step 5 – QBI Component.

Fred's total QBI Component is \$30,415, which is the sum of all his QBI Components for each trade or business:

	Aggregation 1	Accounting Firm	Gas Station
20% QBI	34,609	231	0
Less: Phased-in Reduction	<u>(4,425)</u>	<u>(0)</u>	<u>(0)</u>
Equals: QBI Component	30,184	231	0

Step 6 – REIT/PTP Component.

Fred's REIT/PTP Component is 20% of the sum of all his REIT dividends plus his PTP income and losses, \$100 (500 x 20%).

So, Fred's QBI deduction before the income limitation is \$30,515 (30,415 QBI Component + 100 REIT/PTP Component).

Step 7 – Taxable income limitation.

Fred's QBI is limited his taxable income less net capital gain. So, his QBI deduction is \$30,515, which is the lessor of:

- QBI deduction before the income limitation = **\$30,515**, or
- 20% of (TI – NCG): (205,500 - 2,000) x 20% = \$40,700

PATRON REDUCTION

A patron who receives a qualified payment from a specified agricultural or horticultural cooperative, that is QBI for the patron's QTBI is required to reduce the QBI deduction for such trade or business by the lesser of:

- 9 percent of QBI allocable to the qualified payment from the specified agricultural or horticultural cooperative, or
- 50 percent of W-2 wages of the trade or business of the patron allocable to the qualified payment.

COORDINATION WITH OTHER CODE SECTIONS

NET OPERATING LOSS

A Net operating loss under [IRC § 172](#) generally is figured without the QBI deduction, meaning the QBI deduction can't create or increase the net operating loss.

ALTERNATIVE MINIMUM TAX

The QBI deduction that is used to determine regular tax is also used to determine alternative minimum taxable income.

SELF-EMPLOYMENT NET EARNINGS

Net earnings from self-employment aren't reduced by the QBI deduction when computing self-employment tax.

NET INVESTMENT INCOME

Net investment income isn't reduced by the QBI deduction when computing net investment income tax.

PENALTIES

The thresholds for determining whether there is a substantial understatement for the accuracy-related penalty of [IRC § 6662](#) is reduced for taxpayers claiming a QBI deduction:

- **from** 10 percent of the tax required to be shown on the return or \$10,000,
- **to** 5 percent of the required tax required to be shown on the return or \$5,000.

PUERTO RICO

For purposes of determining QBI, the United States includes Puerto Rico for taxpayers who have taxable income from sources within Puerto Rico that are subject to tax under [IRC § 1](#). Further, W-2 wages are figured by including W-2 wages paid for services performed in Puerto Rico without regard to [IRC § 3401\(a\)\(8\)](#).



Tax Cuts and Jobs Act, Provision 11011

Section 199A - Qualified Business Income Deduction FAQs

Basic questions and answers on new 20-percent deduction for pass-through businesses

Below are answers to some basic questions about the new qualified business income (QBI) deduction, also known as the section 199A deduction, that may be available to individuals, including many owners of sole proprietorships, partnerships and S corporations. Some trusts and estates may also be able to take the deduction. This deduction, created by the 2017 Tax Cuts and Jobs Act, allows non-corporate taxpayers to deduct up to 20 percent of their QBI, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

Q1. What is the Qualified Business Income Deduction?

A1. Section 199A of the Internal Revenue Code provides many owners of sole proprietorships, partnerships, S corporations and some trusts and estates, a deduction of income from a qualified trade or business. The deduction has two components.

1. QBI Component. This component of the deduction equals 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. Depending on the taxpayer's taxable income, the QBI component is subject to multiple limitations including the type of trade or business, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. It may also be reduced by the patron reduction if the taxpayer is a patron of an agricultural or horticultural cooperative. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.
2. REIT / PTP Component. This component of the deduction equals 20 percent of the combined qualified REIT dividends (including REIT dividends earned through a regulated investment company (RIC)) and qualified PTP income. This component is not limited by W-2 wages or the UBIA of qualified property. Depending on the taxpayer's income, the amount of

PTP income that qualifies may be limited depending on the type of business engaged in by the PTP.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxpayer's taxable income minus the net capital gain. For details on figuring the deduction, see Q&A 6 and 7. The deduction is available for taxable years beginning after Dec. 31, 2017 and ending before December 31, 2025. Most eligible taxpayers will be able to claim it for the first time when they file their 2018 federal income tax return in 2019. The deduction is available, regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

Q2. Who may take the QBI deduction?

A2. Individuals and some trusts and estates with QBI, qualified REIT dividends or qualified PTP income may qualify for the deduction. In some cases, patrons of horticultural or agricultural cooperatives may be required to reduce their deduction. The IRS will be issuing separate guidance for co-ops.

Q3. How do S corporations and partnerships handle the deduction?

A3. S corporations and partnerships are generally not taxable and cannot take the deduction themselves. However, all S corporations and partnerships report each shareholder's or partner's share of QBI, W-2 wages, UBI of qualified property, qualified REIT dividends and qualified PTP income on Schedule K-1 so the shareholders or partners may determine their deduction.

Q4. What is qualified business income?

A4. QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. Only items included in taxable income are counted. In addition, the items must be effectively connected with a U.S. trade or business. Items such as capital gains and losses, certain dividends, and interest income are excluded. W-2 income, amounts received as reasonable compensation from an S corporation, amounts received as guaranteed payments from a partnership, and payments received by a partner for services under section 707(a) are also not QBI.

Q5. What is a qualified trade or business?

A5. A qualified trade or business is any section 162 trade or business, with three exceptions:

1. A trade or business conducted by a C corporation.
2. For taxpayers with taxable income that exceeds the threshold amount, specified service trades or businesses (SSTBs). An SSTB is a trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets or any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners. The principal asset of a trade or business is the reputation or skill of its employees or owners if the trade or business consists of the receipt of income from endorsing

products or services, the use of an individual's image, likeness, voice, or other symbols associated with the individual's identity, or appearances at events or on radio, television, or other media formats. The SSTB exception does not apply for taxpayers with taxable income below the threshold amount and is phased in for taxpayers with taxable income above the threshold amount. For 2018, the threshold amount is \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers. The threshold amounts will be adjusted for inflation in subsequent years.

3. The trade or business of performing services as an employee.

Q6. How is the deduction for qualified business income computed?

A6. The SSTB limitation discussed in Q&A 5 does not apply if a taxpayer's taxable income (before the QBI deduction) is at or below the threshold amount, discussed in Q&A 5; the deduction is the lesser of:

A. 20 percent of the taxpayer's QBI, plus 20 percent of the taxpayer's qualified REIT dividends and qualified PTP income' or

B. 20 percent of the taxpayer's taxable income minus net capital gain.

If the taxpayer's taxable income (before the QBI deduction) is above the threshold amount, the deduction may be limited based on whether the business is an SSTB, the W-2 wages paid by the business and the unadjusted basis immediately after acquisition of certain property used by the business. For 2018, these limitations are phased in for joint filers with taxable income above \$315,000 but below \$415,000, and all other taxpayers with taxable income above \$157,500 but below \$207,500. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q7. I have income from a specified service trade or business. How does that affect my deduction?

A7. The SSTB limitation does not apply to any taxpayer whose taxable income (before the qualified business deduction) is at or below the threshold amounts discussed in Q&A #5. For taxpayers whose taxable income is within the phase-in range discussed in Q&A #6, the taxpayer's share of QBI, W-2 wages and UBI of qualified property related to the SSTB may be limited. If the taxpayer's taxable income exceeds the phase-in range, no deduction is allowed with respect to any SSTB. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years.

Q8. In 2018, I will report taxable income under \$315,000 and file married filing jointly. Do I have to determine if I am in an SSTB in order to take the deduction? Is there any limitation on my deduction?

A8. No, if your 2018 taxable income (before the QBI deduction) is at or below the threshold amount (\$315,000, if married filing jointly, or \$157,500 for all other filing statuses), the SSTB limitations do not apply. You will be able to deduct the lesser of:

a) Twenty percent (20%) of your QBI, plus 20 percent of your qualified REIT dividends and qualified PTP income, or

b) Twenty percent (20%) of your taxable income minus your net capital gain.

Income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q9. In 2018, I will report taxable income between \$157,500 and \$207,500 and file as single. I receive QBI. Does it matter if it is from an SSTB?

A9. Yes, because your taxable income is above the threshold amount, your QBI deduction with respect to any SSTB will be limited. However, because you are within the phase-in range (above \$315,000 but below \$415,000 for married filing joint, and all other taxpayers with taxable income above \$157,500 but below \$207,500), you may be allowed some QBI deduction with respect to an SSTB. In addition, for taxpayers above the threshold amount, the 20 percent QBI with respect to any trade or business, including an SSTB, may be limited by the amount of W-2 wages paid by the trade or business and the UBIA of qualified property held by the trade or business. Sections 1.199A-1 and 1.199A-2 of the [regulations](#) provides additional information.

Q10. In 2018, I am single and will report taxable income over \$207,500. My only income is from an SSTB. Am I entitled to the deduction with respect to the SSTB?

A10. No. The same is true for a married couple filing a joint return whose taxable income exceeds \$415,000.

Q11. In 2018, I am single and will report taxable income over \$207,500. I am NOT in an SSTB. Am I entitled to the deduction?

A11. Yes, if you have QBI, qualified REIT dividends or qualified PTP income. For eligible taxpayers with total taxable income in 2018 over \$207,500 (\$415,000 for married filing joint returns), the deduction for QBI may be limited by the amount of W-2 wages paid by the qualified trade or business and the UBIA of qualified property held by the trade or business. The regulations provide additional information on these limitations. The IRS also issued [Revenue Procedure 2019-11](#) providing methods for determining W-2 wages for purposes of the limitation.

Q12. How do co-ops qualify for the qualified business income deduction?

A12. The IRS will be issuing separate guidance for co-ops.

Q13. Is there a form for reporting the qualified business income deduction?

And if so, where can I find it?

A13. There is no form for reporting the QBI deduction in 2018. However, two worksheets have been developed to help taxpayers compute their deduction. The first worksheet is located in the instructions to Form 1040 and can be used by taxpayers with taxable income (before the QBI deduction) at or below the threshold amount (\$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers) and that are not patrons in a horticultural cooperative.

The second worksheet will be located in Publication 535, Business Expenses. It should be used by taxpayers with taxable income exceeding the threshold amount. It should also be used by taxpayer's that are patrons of specified agricultural or horticultural cooperatives.

Q14. Does the deduction reduce earnings subject to self-employment tax?

A14. No. The QBI deduction does not reduce net earnings from self-employment, under section 1402. Similarly, the deduction does not reduce net investment income under section 1411 (Form 8960, Net Investment Income Tax).

Q15. If I report taxable income under the threshold are there any limits to my deduction?

A15. If your taxable income (before the QBI deduction) is at or below the threshold, then most of the limitations are not applicable.

The specified service trade or business, W-2 wage, and UBIA limitations do not apply to taxpayers whose taxable income is at or below these thresholds.

The deduction is limited the lesser of 20% of QBI plus 20% of qualified REIT dividends and qualified PTP income or 20% of taxable income less net capital gain for all taxpayers, regardless of income. Also, if you are a patron in an agricultural or horticultural cooperative, the QBI component may be reduced by the patron reduction. Finally, income earned through a C corporation or by providing services as an employee is not eligible for the deduction regardless of the taxpayer's taxable income.

Q16. Do any limitations apply to the REIT/PTP Component?

A16. Yes. The REIT/PTP Component generally includes qualified REIT dividends (including REIT dividends earned through a RIC) and PTP income as defined in section 199A and the regulations thereunder. For taxpayers above the threshold amount, discussed in Q&A #5 and #6, qualified PTP income may be limited if the PTP operates an SSTB. The limitation does not apply to any taxpayer whose taxable income (before the qualified business deduction) is at or below the threshold amounts discussed in Q&A #5. For taxpayers whose taxable income is within the phase-in range discussed in Q&A #6, the taxpayer's PTP income from the SSTB may be limited. If the taxpayer's taxable income exceeds the phase-in range, no deduction is allowed with respect to any SSTB operated by a PTP. The threshold amounts and phase-in range are for tax year 2018 and will be adjusted for inflation in subsequent years.

Q17. If someone is a real estate professional, will their rental real estate qualify for the deduction?

A17. The deduction is not based on whether the taxpayer qualifies as a real estate professional under section 469. Rental real estate may constitute a trade or business for purposes of the QBI deduction if the rental real estate:

- Rises to the level of a trade or business under section 162,
- Satisfies the requirements for the safe harbor provided by Notice 2019-07, or
- Meets the self-rental exception (i.e., the rental or licensing of property to a commonly controlled trade or business conducted by an individual or RPE).

Whether rental real estate rises to the level of a trade or business under section 162 depends on all the facts and circumstances. To be engaged in a trade or business under section 162, the taxpayer must be actively involved in the activity with continuity and regularity and the primary purpose for engaging in the activity must be for income or profit.

Q18. If I have net income from one qualified business and a net loss from another qualified business, is the loss from the second business carried forward and applied against that same business in the future or is it netted against the income from the first business when calculating the deduction? What if the losses are greater than the income, does this mean I will not get a deduction?

A18. A taxpayer must net their QBI, including losses, from multiple trades or businesses (including aggregated trades or businesses). So, negative QBI from one business will offset positive QBI from other trades or businesses (including aggregated trades or businesses) in proportion to the net income of the trades or businesses with positive QBI.

If the total QBI from all trades or businesses is less than zero, the taxpayer's QBI Component will be zero and any negative amount is carried forward to the next taxable year. The carried forward negative QBI will be treated as negative QBI from a separate trade or business for purpose of determining the QBI Component in the next taxable year.

Q19. Does a net for QBI Component loss, reduce the REIT PTP Component?

A19. A net loss in the QBI Component does not impact the calculation of the deduction with respect to the REIT/PTP Component. However, if qualified PTP income is a loss, it is netted against qualified REIT dividends in a separate netting calculation from the loss netting of the QBI Component. These two netting requirements could result in two separate loss carryforwards, one for the QBI Component and one for the REIT/PTP Component.

Q20. Do I have to materially participate in a business to qualify for the deduction?

A20. No. Material participation under section 469 is not required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction (if they otherwise satisfy the requirements of section 199A) regardless of their involvement in the trade or business.

Q21. I file a joint return, my income is under the threshold amount, the only income I have is from W-2 wages and a domestic Schedule C business. Does my QBI equal the amount on Schedule C, line 31, Net profit or (loss)?

A21. Not necessarily. As discussed in Q&A #4, QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. In addition to the profit or loss from Schedule C, QBI must be adjusted by any other items of gain or deduction related to the business, including but not limited to gains from Form 4797, the deductible part of self-employment tax, self-employed health insurance, self-employed SEP, SIMPLE, and qualified plan deductions. Amounts received as W-2 income, reasonable compensation from an S corporation, guaranteed payments from a partnership, and payments received by a partner for services under section 707(a) are not QBI and are not eligible for the deduction.

Q22. I am a statutory employee and report my income on Schedule C. Does it qualify for the qualified business income deduction?

A22. Payments made to statutory employees, as defined in section 3121(d)(3), are excluded from the definition of wages considered income from the trade or business of performing services as an employee under §1.199A-5(d)(1). Items of income, gain, deduction, and loss from performance of services as a statutory employee are considered QBI and are eligible for the QBI deduction to the extent the requirements of section 199A are satisfied.

Q23. Can you explain in more detail how losses that are limited by basis, at-risk, or passive activity rules affect the deduction?

A23. Items not included in taxable income are not qualified items of income, gain, deduction, or loss and are not current year QBI. If a taxpayer has a suspended loss that is allowed against current year taxable income, whether the loss reduces QBI depends on whether the loss was limited before or after January 1, 2018.

If the loss was disallowed before 2018, the loss is never taken into account for purposes of computing QBI. This means the taxpayer must keep track of pre-2018 disallowed losses, so that they can be excluded from QBI in the year the loss is allowed.

If the loss was generated after 2018, it is included in QBI if it is a qualified item of deduction or loss that would otherwise be included in QBI, but not until the year it is included/allowed in taxable income.

Disallowed, limited, or suspended losses must be used in order from the oldest to the most recent on a first-in, first-out (FIFO) basis.

Q24. How do I satisfy the disclosure requirements if I choose to aggregate my trade or businesses?

A24. Pub 535, Business Expenses, has a Qualified Business Income Deduction Worksheet that can be used to compute the QBI deduction. Schedule B, Aggregation of Business Operations, or another schedule reflecting the taxpayer's aggregation should be attached to the return as a PDF to satisfy the disclose requirement.

Q25. Do I need to disclose my aggregated trades or businesses when I use the simplified worksheet in the Instructions for Form 1040 to calculate the QBI deduction?

A25. Yes, taxpayers should disclose their aggregations regardless of which worksheet they use to compute the QBI deduction. A failure to aggregate will not be considered to be an aggregation for purposes of the consistency requirement. So, if the taxpayer is under the threshold in 2018 and there is not a need to aggregate, it would not prevent the taxpayer from aggregating in a subsequent year when the taxpayer's taxable income exceeds the threshold amount.

Q26. I received a REIT dividend either directly or through a regulated investment company (RIC), reported as a section 199A dividend in box 5 of Form 1099-DIV. Is this amount eligible for the QBI deduction?

A26. Box 5 of Form 1099-DIV is used by REITs and RICs to report amounts that may be eligible for the QBI deduction, but some amounts reported in box 5 may be ineligible for the deduction.

Ineligible dividends include those for which the taxpayer did not meet holding period requirements for REIT or RIC stock. The QBI deduction may not be taken for any dividend reported in box 5 for dividend received on a share of REIT or RIC stock that is held for 45 days or less during the 91-day period beginning on the date that is 45 days before the date on which such share became ex-dividend with respect to the dividend. When counting the number of days the stock is held, include the day the stock is disposed of but not the day the stock is acquired. Also, don't count days during which the risk of loss was diminished. Specifically, don't count any day during which any of the following conditions are met:

- A. The taxpayer had an option to sell, was under a contractual obligation to sell, or entered into (and not closed) a short sale of substantially identical stock or securities.
- B. The taxpayer was a grantor (writer) of an option to buy substantially identical stock or securities.
- C. The taxpayer's risk of loss was diminished by holding one or more other positions in substantially similar or related property.

In addition, the deduction may not be taken for any dividend on shares of REIT or RIC stock reported in box 5 to the extent the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property.

Pass-through Entity

Q27. I am a partner in several partnerships, how do I know what qualifies for the deduction?

A27. The Schedule K-1s for 2018 have new codes for the QBI deduction items. The partnership needs to provide each partner with their share of QBI, W-2 wages, UBIA of qualified property, and other information necessary for partners to compute their deduction. The same rules apply for S corporations.

If a partnership or S corporation fails to provide this information, the final regulations provide that each unreported income of positive QBI, W-2 wages, or UBIA of qualified property attributable to the entity's trades or businesses will be presumed to be zero. This means that a partner or shareholder may be unable to claim a QBI deduction on the entity's income if the entity fails to report the information. It is recommended that taxpayer follow-up with a pass-through entity if they do not provide the necessary information.

Q28. If a pass-through entity has one business, is it only required to provide one dollar amount for the QBI?

A28. The pass-through entity is required to provide the owners QBI information necessary for the owner to compute the deduction. If the entity only has ordinary income from a single trade or business, it may be appropriate to reflect one QBI amount. Items from a pass-through entity are required to be separately stated due to the potential of unique treatment on one or more owners' returns. Items not included in current year taxable income are not included in QBI. Therefore, additional details will also need to be provided for the owners. If for example, in addition to ordinary income the owner is allocated a section 179 deduction, since the 179 deduction may be limited, the detail would be required in order for the owner to properly determine the current year QBI.

Also note that the rules to separately state items from each activity for the application of the at-risk rules and passive activity loss limitation rules still apply even when a pass-through entity chooses to aggregate a trade or business for the purposes of section 199A.

Q29. My income is under the threshold amount and I only have income from W-2 wages and a partnership interest. Does my QBI equal the amount of partnership income reported on Schedule K-1?

A29. Maybe. As discussed in Q&A 4, QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business. To determine the total amount of QBI, the taxpayer must consider deductions not reported on Schedule K-1 that are related to the trade or business. This could include unreimbursed partnership expenses, business interest expense, the deductible part of self-employment tax, the self-employment health insurance

deduction, and self-employed SEP, SIMPLE, and qualified plan deductions in addition to other adjustments. Amounts received as guaranteed payments and payments received by a partner for services under section 707(a) are not QBI and are not eligible for the deduction.

Q30. What about fiscal-year pass-through entities? I have a partnership whose fiscal year ended on March 31, 2018. Do I get a qualified business income deduction for the income I earned?

A30. The QBI deduction itself is available only to taxpayers whose tax years begin after December 31, 2017.

However, any QBI reported to a taxpayer from a related passthrough entity with a taxable year beginning in 2017 and ending in 2018 is treated as having been incurred in the owner's taxable year in which the passthrough entity's taxable year ends.

For example, a calendar year partner in a partnership with a fiscal year end of March 31, 2018, will be able to include the partnership's QBI for the entire fiscal year in determining the partner's 2018 QBI deduction. The partner may also use the partnership's W-2 wages and UBIA of qualified property in computing the deduction, if applicable.

Note that the pass-through entity's 2017 Schedule K-1 does not have the detail relating to the new QBI deduction. The entity should still provide the necessary detail to the owners as an attachment to the Schedule K-1.

Q31. In 2018, I receive a Schedule K-1 allocating a PTP loss. The loss is not currently allowable due to the passive activity rules. Is it used in computing the REIT/PTP component?

A31. No. Since the loss is not included in taxable income for 2018, it is not used in computing the QBI deduction in 2018. In a later taxable year, when the loss is allowable, the loss generated in 2018 will be used in computing the REIT/PTP component.

Q32. I was told that I can rely on the rules in the proposed regulations under § 1.199A-1 through 1.199A-6 to calculate qualified business income (QBI) for my 2018 tax return. Does this mean I do not have to include adjustments for items such as the deductible portion of self-employment tax, self-employed health insurance deduction, or the self-employed retirement deduction when calculating my QBI in 2018?

A32. Section 199A(c)(1) defines qualified business income as the net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer. Proposed regulation § 1.199A-1(b)(4) followed this definition, providing that QBI is the net amount of qualified items of income, gain, deduction, and loss with respect to any trade or business as determined under the rules of 1.199A-3(b). Section 1.199A-1(b)(5) of the final

regulations retains this rule, also providing that QBI means the net amount of qualified items of income, gain, deduction, and loss with respect to any trade or business (or aggregated trade or business) as determined under the rules of 1.199A-3(b).

Section 1.199A-3(b)(2) defines the term “qualified items of income, gain, deduction, and loss” as items of gross income, gain, deduction, and loss to the extent such items are effectively connected with the conduct of a trade or business within the United States (with certain modifications) and included or allowed in determining taxable income for the taxable year. The final regulations add additional clarity in § 1.199A-3(b)(1)(vi), which provides that generally deductions attributable to a trade or business are taken into account for purposes of computing QBI to the extent that the requirements of section 199A and § 1.199A-3 are satisfied. For purposes of section 199A only, deductions such as the deductible portion of the tax on self-employment income under section 164(f), the self-employed health insurance deduction under section 162(l), and the deduction for contributions to qualified retirement plans under section 404 are considered attributable to a trade or business to the extent that the individual’s gross income from the trade or business is taken into account in calculating the allowable deduction, on a proportionate basis to the gross income received from the trade or business.

The above the line adjustments for self-employment tax, self-employed health insurance deduction, and the self-employed retirement deduction are examples of deductions attributable to a trade or business for purposes of section 199A. There is no inconsistency between the proposed and final regulations on this issue. QBI must be adjusted for these items in 2018.

Q33. Health insurance premiums paid by an S-Corporation for greater than 2% shareholders reduce qualified business income (QBI) at the entity level by reducing the ordinary income used to compute allocable QBI. If I take the self-employed health insurance deduction for these premiums on my individual tax return, do I have to also include this deduction when calculating my QBI from the S-Corporation?

A33. Generally, the self-employed health insurance deduction under section 162(l) is considered attributable to a trade or business for purposes of section 199A and will be a deduction in determining QBI. This may result in QBI being reduced at both the entity and the shareholder level.

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Aggregation Example - Org Chart (cont'd)

