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INCOME THRESHOLDS

How the deduction is computed is based on the taxpayer's taxable income, before the qualified business income deduction (QBID):

For Married Filing Joint, Income threshold is $321,400 for 2019 ($315,000 for 2018)
- Phase-in Range of $100,000 ($321,400 to $421,400)

For Married Filing Separate, Income threshold is $160,725 for 2019 ($157,500 for 2018)
- Phase-in Range of $50,000 ($160,725 to $210,725)

For all other taxpayers, Income threshold is $160,700 for 2019 ($157,500 for 2018)
- Phase-in Range of $50,000 ($160,700 to $210,700)

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THE CALCULATION – INCOME AT OR UNDER THE THRESHOLD

If taxable income, before QBID, is at or under the income threshold, the deduction is the lesser of:

1) 20% of qualified business income (QBI) plus 20% of qualified Real Estate Investment Trust (REIT) dividends and qualified Publicly Traded Partnership (PTP) income

2) 20% of the amount by which the individual's taxable income exceeds net capital gain* (before the deduction)

*Net capital gain is the net of long-term capital gains less short-term capital losses, not below zero, plus qualified dividends.

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THE CALCULATION – INCOME OVER THE THRESHOLD

If taxable income, before QBID, is over the income threshold and phase-in range, the QBI is now limited as follows:

QBI is the lesser of:

1) 20% of QBI (excluding SSTB QBI)
2) The greater of
    a) 50% of qualified W-2 wages attributable to the trade or business, or
    b) 25% of those W-2 wages plus 2.5% of the unadjusted basis immediately after acquisition (UBIA) of qualified property for that trade or business

If taxable income, before QBID, is within the phase-in range, the SSTB and wage/basis limitations noted above are phased in.

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QUALIFIED TRADE OR BUSINESS

A qualified trade or business generally means any trade or business **other than**:

- A specified service trade or business (SSTB),
- A trade or business conducted by a C corporation, or
- The trade or business performing services as an employee.

A "specified service trade or business" is:

- Any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees or owners.

- Also includes investing and investing management, trading, or dealing in securities, partnership interests, or commodities.

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QUALIFIED BUSINESS INCOME

What is QBI?

QBI is generally defined as the net amount of qualified items of income, gain, deduction, and loss with respect to a qualified trade or business of the taxpayer. These items are qualified to the extent that they are included or allowed in determining taxable income for the year.

Some of the more common items excluded from QBI are:

- Items that are not effectively connected with the conduct of a trade or business within the U.S.
- Capital gains/losses
- Dividends
- Interest income
- Wage income
- Reasonable compensation paid to the taxpayer for services
- Guaranteed payments paid to a partner for services

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W-2 WAGES

- "Wages" generally means all money paid for work or services performed by an employee for his employer (including the cash value of all benefits or amounts paid in any medium other than cash).
- Taxpayers may take into account wages reported on Forms W-2 issued by other parties provided that the wages reported on the Forms W-2 were paid to employees of the taxpayer for employment by the taxpayer.
- The associated wages expense is taken into account in computing QBI.
- Rev. Proc. 2019-11 was issued with the final regulations which provides methods for calculating W-2 wages.
    - W-2 wages do not include amounts paid to statutory employees.

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UBIA OF QUALIFIED PROPERTY

Qualified property is tangible property of a character subject to depreciation that is held by, and available for use in, a trade or business at the close of the taxable year, and which is used in the production of QBI, and for which the depreciable period has not ended before the close of the taxable year.

Depreciable period means the period beginning on the date the property is first placed in service by the taxpayer and ending on the later of

- The date 10 years after that date or
- The last day of the last full year in the applicable recovery period that would apply to the property (additional first-year depreciation deductions do not affect the applicable recovery period)

UBIA will generally be the property's cost on the property is placed in service date.

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RENTAL PROPERTY

Rental real estate is treated as a trade or business for purposes of the 199A if it meets any of the following three tests:

1. The rental real estate rises to the level of a section 162 trade or business
   a) According to Rev. Rul. 73-522, triple net lease is not a trade or business.
2. The rental real estate is a rental real estate enterprise meeting the requirements of the safe harbor provided in Rev. Proc. 2019-38
3. The rental of property is to a commonly controlled trade or business operated by an individual or passthrough entity as described in section 1.199A-1(b)(14), a.k.a. - self-rental.

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RENTAL REAL ESTATE SAFE HARBOR

- Rev. Proc. 2019-38 provides a safe harbor under which a "real estate enterprise" is treated as a single trade or business for purposes of Section 199A.

- A rental real estate enterprise may consist of an interest in a single property or interests in multiple properties.
  - Must be held directly or through a disregarded entity.
  - Multiple properties of the same category (residential or commercial) can be treated as a single enterprise if all other properties of the same category are included.
  - Residential and commercial property cannot be combined with the exception of mixed use property.

- To qualify under the safe harbor, the enterprise must meet all of the following requirements:
  - Separate books and records are maintained.
  - For enterprises in existence less than 4 years, 250 or more hours of "rental services" are performed during the year, 3 of 5 consecutive year rule for those in existence at least 4 years.
  - Contemporaneous records regarding hours, description, and date all services performed, including who performed the services.
  - A statement is attached to the return describing the properties included in each enterprise, a description of any properties acquired or disposed of in the year, and representation that you meet the requirements of the safe harbor.

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1031 EXCHANGES

- 1031 exchanges generally use the relinquished property's date placed in service for purposes of calculating the "Depreciable Period."

- 1031 exchanges generally use the relinquished property's UBIA, decreased by any boot or increased for any money or not like-kind property given by the taxpayer in the exchange.
  - Any additional UBIA generated by excess payments is considered a separate item of qualified property with a new placed in service date.

- If an election is made under §1.168(i)-6(i)(1) – the taxpayer uses the date the replacement property was first used by the trade or business.

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $100,000 of QBI
- The taxpayer's total taxable income, before QBID, is $80,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is below the income threshold of $157,500.

20% of QBI from business ($100,000 * 20% = $20,000)

20% of taxable income ($80,000 * 20% = $16,000)

Deduction is lesser of the two, so $16,000

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $80,000 of QBI
- The taxpayer's total taxable income, before QBID, is $79,000 which includes $9,000 of capital gains
- No REIT dividends and no qualified PTP income

What is his Section 199A deduction?

Taxable income is below the income threshold of $157,500.

20% of QBI from business ($80,000 * 20% = $16,000)

Taxable income minus net capital gain ($79,000 - $9,000 = $70,000)

20% of taxable income minus net capital gain ($70,000 * 20% = $14,000)

Deduction is lesser of the two so $14,000

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EXAMPLE

- The taxpayers are a married couple who receive a K-1 with $100,000 of QBI, $50,000 of W-2 wages, and $0 UBIA (The K-1 is from an SSTB)
- The taxpayers' total taxable income, before QBID, is $300,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is their Section 199A deduction?

Taxable income is below the income threshold of $315,000.

20% of QBI from business ($100,000 * 20% = $20,000)

20% of taxable income ($300,000 * 20% = $60,000)

Deduction is lesser of the two so $20,000

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EXAMPLE

- The taxpayers are a married couple who receive a K-1 with $70,000 of QBI, $30,000 of W-2 wages, and $0 UBIA (not an SSTB)
- The taxpayers' total taxable income, before QBID, is $275,000 which includes $1,000 of qualified PTP income
- No capital gains and no REIT dividends

What is their Section 199A deduction?

Taxable income is below the income threshold of $315,000.

20% of QBI from business ($70,000 * 20% = $14,000) plus 20% of qualified PTP income ($1,000 * 20% = $200)= $14,200

20% of taxable income ($275,000 * 20% = $55,000)

Deduction is lesser of the two so $14,200

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $100,000 of QBI, $0 of W-2 wages, and $ 0 of UBIA of qualified property (not a SSTB)
- The taxpayer's total taxable income, before QBID, is $500,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

50% of W-2 wages = $0

25% of W-2 wages plus 2.5% of UBIA = $0

Greater is $0

20% of QBI from business ($100,000 * 20% = $20,000)

Lesser is $0

20% of taxable income ($500,000 * 20% = $100,000)

Deduction is lesser of the two so $0

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $800,000 of QBI, $0 of W-2 wages, and $4,000,000 of UBIA of qualified property (not a SSTB)
- The taxpayer's total taxable income, before QBID, is $1,000,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

50% of W-2 wages = $0

25% of W-2 wages plus 2.5% of UBIA = ($4,000,000 * 2.5% = $100,000)

Greater is $100,000

20% of QBI from business ($800,000 * 20% = $160,000)

Lesser is $100,000

20% of taxable income ($1,000,000 * 20% = $200,000)

Deduction is lesser of the two so $100,000

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EXAMPLE

Same example as before except:

- The taxpayer is an unmarried individual who receives a K-1 with $800,000 of QBI, $0 of W-2 wages, and $ 4,000,000 of UBIA of qualified property **(is a SSTB)**
- The taxpayer's total taxable income, before QBID, is $1,000,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

20% of QBI not including SSTB QBI $0

- So no deduction

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $900,000 of QBI, $300,000 of W-2 wages, and $ 100,000 of UBIA of qualified property (not a SSTB)
- The taxpayer's total taxable income, before QBID, is $800,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

50% of W-2 wages = $300,000 * 50% = $150,000

25% of W-2 wages plus 2.5% of UBIA = ($300,000 * 25% = $75,000) + ($100,000 * 2.5% = $2,500) = $77,500

Greater of limitation is $150,000

20% of QBI from business ($900,000 * 20% = $180,000)

Lesser of the 2 is $150,000

20% of taxable income ($800,000 * 20% = $160,000)

Deduction is lesser of the two so $150,000

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $1,800,000 of QBI, $1,000,000 of W-2 wages, and $ 100,000 of UBIA of qualified property (not a SSTB)
- The taxpayer's total taxable income, before QBID, is $2,000,000 which includes $10,000 of qualified PTP loss
- No capital gains and no REIT dividends

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

50% of W-2 wages = $1,000,000 * 50% = $500,000

25% of W-2 wages plus 2.5% of UBIA = ($1,000,000 * 25% = $250,000) + ($100,000 * 2.5% = $2,500) = $252,500

Greater of limitation is $500,000

20% of QBI from business ($1,800,000 * 20% = $360,000)

Lesser of the 2 is $360,000

plus 20% of qualified PTP income (qualified PTP loss so PTP income is zero and loss is carried forward to net against qualified PTP income in the succeeding taxable year) = $360,000

20% of taxable income ($2,000,000 * 20% = $400,000)

Deduction is lesser of the two so $360,000

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EXAMPLE

- The taxpayers are a married couple who receive a K-1 with $400,000 of QBI, $40,000 of W-2 wages, and $0 of UBIA of qualified property (not a SSTB)
- The taxpayers' total taxable income, before QBID, is $395,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is their Section 199A deduction?

Taxable income is within the phase-in range of $315,000 to $415,000, so limitations will be phased in.

20% of QBI from business ($400,000 * 20% = $80,000)

50% of W-2 wages = ($40,000 * 50% = $20,000)

Since limited by W-2 wages, need to figure out the reduction amount

395,000 – 315,000 = 80,000 of $100,000 range = 80%

Would be limited by $60,000 ($80,000 -20,000). 80% of $60,000 = $48,000

20% QBI ($80,000) minus the reduction amount ($48,000) = $32,000

20% of taxable income ($395,000 * 20% = $79,000)

Deduction is lesser of the two so $32,000

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EXAMPLE

Same example as before except:

- The taxpayers are a married couple who receive a K-1 with $400,000 of QBI, $40,000 of W-2 wages and $ 0 of UBIA of qualified property **(Is a SSTB)**
- The taxpayers' total taxable income, before QBID, is $395,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is their Section 199A deduction?

Taxable income is within the phase-in range of $315,000 to $415,000 so limitations will be phased in, and because it is a SSTB, the 20% deduction will be phased out.

395,000 – 315,000 = 80,000 of $100,000 range = 80% Their applicable percentage is 20%.

20% of QBI from business ($400,000 * 20% * 20% = $16,000)

50% of W-2 wages = ($40,000* 20% * 50% = $4,000)

Would be limited by $12,000 ($16,000 -4,000). 80% of $12,000 = $9,600

20% QBI ($16,000) minus the reduction amount ($9,600) = $6,400

20% of taxable income ($395,000 * 20% = $79,000)

Deduction is lesser of the two so $6,400

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EXAMPLE

- The taxpayer is an unmarried individual who receives a K-1 with $200,000 of QBI, $30,000 of W-2 wages, and $ 0 of UBIA of qualified property (not a SSTB)
- The taxpayer's total taxable income, before QBID, is $165,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is within the phase-in range of $157,500 to $207,500 so limitations will be phased in.

20% of QBI from business ($200,000 * 20% = $40,000)

50% of W-2 wages = ($30,000 * 50% = $15,000)

Since limited by W-2 wages, need to figure out the reduction amount

165,000 – 157,500 = 7,500 of $50,000 range = 15%

Would be limited by $25,000 ($40,000 -15,000). 15% of $25,000 = $3,750

20% QBI ($40,000) minus the reduction amount ($3,750) = $36,250

20% of taxable income ($165,000 * 20% = $33,000)

Deduction is lesser of the two so $33,000

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EXAMPLE

Same example as before except:

- The taxpayer is an unmarried individual who receives a K-1 with $200,000 of QBI, $30,000 of W-2 wages, and $ 0 of UBIA of qualified property **(is a SSTB)**
- The taxpayer's total taxable income, before QBID, is $165,000
- No capital gains, no REIT dividends, and no qualified PTP income

What is his Section 199A deduction?

Taxable income is within the phase-in range of $157,500 to $207,500 so limitations will be phased in, and because it is a SSTB, the 20% deduction will be phased out.

165,000 – 157,500 = 7,500 of $50,000 range = 15% His applicable percentage is 85%.

20% of QBI from business ($200,000 * 85% * 20% = $34,000)

50% of W-2 wages = ($30,000 * 85% * 50% = $12,750)

Would be limited by $21,250 ($34,000 -12,750). 15% of $21,250 = $3,187.50

20% QBI ($34,000) minus the reduction amount ($3,187.50) = $30,812.50

20% of taxable income ($165,000 * 20% = $33,000)

Deduction is lesser of the two so $30,812.50

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EXAMPLE – MULTIPLE K-1S

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs)
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has $20,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $3,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Business A: 20% of QBI ($200,000) or 50% of W-2 ($250,000) = $200,000

Business B: 20% of QBI ($200,000) or 50% of W-2 ($0) = $0

Business C: 20% of QBI ($4,000) or 50% of W-2 (250,000) = $4,000

Total = $204,000

20% of taxable income ($3,000,000 * 20% = $600,000)

Deduction is lesser of the two so $204,000

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QUALIFIED BUSINSS LOSS

- If the individual has QBI of less than zero from one business but has overall QBI greater than zero when all of the individual's businesses are taken together, than the individual must offset the QBI in each business that produced QBI with the qualified business loss from each business that produced qualified business losses. The individual must apportion the qualified business losses among the businesses with positive QBI in proportion to the relative amounts of QBI in such businesses.
- If the net amount of QBI from all trades or businesses is less than zero, the QBI component is zero for the taxable year and the amount is carried over as qualified business net loss carryforward to the succeeding tax year and will be treated as a separate business for computing the deduction in the next taxable year.
- The W-2 and UBIA of qualified property from businesses which produced qualified business losses are not taken into account and not carried over into the subsequent year.

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EXAMPLE – QUALIFIED BUSINESS LOSS

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs)
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has ($600,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $2,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Apportion $600,000 loss to the positive QBIs (since both have $1m, apportioned evenly - $300,000 each) Business A and B both have adjusted QBI of $700,000 ($1,000,000 - $300,000)

Business A: 20% of QBI ($140,000) or 50% of W-2 ($250,000) = $140,000

Business B: 20% of QBI ($140,000) or 50% of W-2 ($0) = $0

Business C: adjusted QBI is $0 (because qualified business loss has been apportioned) = $0

Total = $140,000

20% of taxable income ($2,000,000 * 20% = $400,000)

Deduction is lesser of the two so $140,000

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EXAMPLE – QUALIFIED BUSINESS LOSS

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs)
- Business A has $500,000 of QBI, $100,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $30,000 of W-2 wages, and $2,000,000 UBIA
- Business C has ($900,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $1,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500). Apportion $900,000 loss to positive QBIs:

Business A has adjusted QBI of $200,000 ($500,000 - $300,000 (one third))

Business B has adjusted QBI of $400,000 ($1,000,000 - $600,000 (two thirds))

Business A: 20% of QBI ($40,000) or 50% of W-2 ($50,000) = $40,000

Business B: 20% of QBI ($80,000) or greater of: 50% of W-2 ($15,000) or 25% of W-2 ($7,500) plus 2.5% of UBIA ($50,000) = $57,500) = $57,500

Business C: adjusted QBI is $0 (because qualified business loss has been apportioned) = $0

Total = $97,500

20% of taxable income ($1,000,000 * 20% = $200,000)

Deduction is lesser of the two so $97,500

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EXAMPLE – QUALIFIED BUSINESS LOSS

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs)
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has ($2,150,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $2,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

The taxpayer has a combined QBI of ($150,000). Therefore, there is no deduction for the current year and the $150,000 qualified business net loss carryforward will be treated as a separate business for computing the deduction in the next taxable year. None of the W-2 wages or UBIA carryforward.

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EXAMPLE – QUALIFIED BUSINESS LOSS

In the following year: (remember the $150,000 carryforward from the prior year)

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs)
- Business A has $450,000 of QBI, $100,000 of W-2 wages, and $0 UBIA
- Business B has $150,000 of QBI, $1,000 of W-2 wages, and $0 UBIA
- Business C has ($120,000) of qualified business loss, $500 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $1,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Positive combined QBI of $330,000. Apportion $270,000 loss to positive QBIs:

Business A has adjusted QBI of $247,500 ($450,000 - $202,500 (75%))

Business B has adjusted QBI of $82,500 ($150,000 - $67,500 (25%))

Business A: 20% of QBI ($49,500) or 50% of W-2 ($50,000) = $49,500

Business B: 20% of QBI ($16,500) or 50% of W-2 ($500) = $500

Business C: adjusted QBI is $0 (because qualified business loss has been apportioned) = $0

Total = $50,000

20% of taxable income ($1,000,000 * 20% = $200,000)

Deduction is lesser of the two so $50,000

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AGGREGATION

If the entities meet certain requirements, the taxpayer can choose to aggregate the businesses.

- The same person or group of persons, directly or indirectly, owns 50% or more of each trade or business. (Family attribution rules)
- Each trade or business to be aggregated have the same tax year.
- None of the trades or business to be aggregated is an SSTB.
- Must satisfy TWO of the following factors
  - The trades or businesses provide products and services that are the same or customarily offered together
  - The trade or business share facilities or share significant centralized business elements
  - The trades or businesses are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group

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AGGREGATION

- Aggregation is not mandatory, and multiple owners of an entity do not need to aggregate in the same manner.
- Once the taxpayer chooses to aggregate two or more trades or business, the taxpayer must consistently report the aggregated trades or businesses in all subsequent taxable years.
- If a trade or business is newly created or newly acquired, it can be added to existing aggregated trades or businesses if the requirements are satisfied.
- If in a future year, there is a change in facts and circumstances such that a taxpayer's prior aggregation of trades or businesses no longer qualifies for aggregation, then the trades or businesses will no longer be aggregated and the taxpayer must reapply the aggregation rules to determine a new permissible aggregation.
- For each taxable year, the taxpayer must attach a statement to their return identifying each trade or business aggregated that contains a description of each trade or business, the name and EIN of each entity, and information identifying any trade or business added or removed.

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AGGREGATION

- Final regulations provide that aggregation can now happen at the entity level.
- If an entity aggregates, the owners have no choice but to respect that aggregation. An owner can, however, add his or her own business to the aggregation as long as the owner's business meets the aggregation requirements for ALL of the businesses in the aggregation.
- A pass-through business that aggregates must disclose to its owners on a Schedule K-1 attachment identifying:
  - Each business aggregated
  - A description of each business
  - The name and EIN of each entity
- For 2018 only, you can elect to aggregate on an amended return.

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EXAMPLE

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs) Business A, B, and C qualify for aggregation and the taxpayer elects to aggregate.
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has $20,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $3,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Because the businesses are aggregated, the limitations are applied on an aggregated basis.

Combined QBI = $2,020,000 Combined W-2 =$1,000,000

50% of W-2 wages = $500,000

20% of QBI = $404,000

Lesser of the 2 is $404,000

20% of taxable income ($3,000,000 * 20% = $600,000)

Deduction is lesser of the two so $404,000

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EXAMPLE

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs) Business A, B, and C qualify for aggregation and the taxpayer elects to aggregate.
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has ($600,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $2,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Because the business are aggregated, the limitations are applied on an aggregated basis.

Combined QBI = $1,400,000 Combined W-2 =$1,000,000

50% of W-2 wages = $500,000

20% of QBI = $280,000

Lesser of the 2 is $280,000

20% of taxable income ($2,000,000 * 20% = $400,000)

Deduction is lesser of the two so $280,000

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EXAMPLE

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs) Business A, B, and C qualify for aggregation and the taxpayer elects to aggregate.
- Business A has $500,000 of QBI, $100,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $30,000 of W-2 wages, and $2,000,000 UBIA
- Business C has ($900,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $1,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).

Because the business are aggregated, the limitations are applied on an aggregated basis.

Combined QBI = $600,000 Combined W-2 =$630,000 Combine UBIA = $2,000,000

50% of W-2 wages = $315,000

25% of W-2 ($157,500) plus 2.5% of UBIA ($50,000) = $207,500

Greater of the 2 is $315,000

20% of QBI = $120,000

Lesser of the 2 is $120,000

20% of taxable income ($1,000,000 * 20% = $200,000)

Deduction is lesser of the two so $120,000

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EXAMPLE

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs) Business A, B, and C qualify for aggregation and the taxpayer elects to aggregate.
- Business A has $1,000,000 of QBI, $500,000 of W-2 wages, and $0 UBIA
- Business B has $1,000,000 of QBI, $0 of W-2 wages, and $0 UBIA
- Business C has ($2,150,000) of qualified business loss, $500,000 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income is $2,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

The taxpayer has a QBI of ($150,000) for their aggregated trade or business. Therefore, there is no deduction for the current year and the $150,000 qualified business loss carries forward and will be treated as a separate business for computing the deduction in the next taxable year. None of the W-2 wages or UBIA carryforward.

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EXAMPLE

In the following year: (remember the $150,000 carryforward from the prior year)

- The taxpayer is an unmarried individual and receives 3 K-1s. (none are SSTBs) Business A, B, and C qualify for aggregation and the taxpayer elects to aggregate.
- Business A has $450,000 of QBI, $100,000 of W-2 wages, and $0 UBIA
- Business B has $150,000 of QBI, $1,000 of W-2 wages, and $0 UBIA
- Business C has ($120,000) of qualified business loss, $500 of W-2 wages, and $0 UBIA
- The taxpayer's total taxable income, before QBID, is $1,000,000 (no capital gains, REIT dividends, or PTP income)

What is his Section 199A deduction?

Taxable income is above the threshold and phase-in range ($207,500).
Because the businesses are aggregated, the limitations are applied on an aggregated basis.
Aggregated QBI = $330,000 Aggregated W-2 =$101,500
50% of W-2 wages = $50,750
20% of QBI = $66,000
Lesser of the two is $50,750
20% of taxable income ($1,000,000 * 20% = $200,000)
Deduction is lesser of the two so $50,750

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REFERENCES

- Proposed Regulation issued August 16, 2018.
- Final Regulations issued January 18, 2019.
- Rev. Proc. 2019-11 - Determination of W-2 Wages.
- Revenue Procedure 2019-38 - Trade or Business.
- 2019 Form 8995 - Qualified Business Income Deduction Simplified Computation – draft issued July 25, 2019.

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