



# Tax Cuts and Jobs Act, Provision 11011 Section 199A - Qualified Business Income Deduction FAQs

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

Below are answers to some basic questions about the new 20-percent deduction for pass-through businesses. Also known as the section 199A deduction or the deduction for qualified business income, the deduction was created by the 2017 Tax Cuts and Jobs Act.

### Q1. What is the Qualified Business Income Deduction?

A1. Section 199A of the Internal Revenue Code provides many taxpayers a deduction for qualified business income from a qualified trade or business operated directly or through a pass-through entity. The deduction has two components.

1. Eligible taxpayers may be entitled to a deduction of up to 20 percent of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. For taxpayers with taxable income that exceeds \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer's taxable income, 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. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

2. Eligible taxpayers may also be entitled to a deduction of up to 20 percent of their combined qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This component of the section 199A deduction is not limited by W-2 wages or the UBIA of qualified property.

The sum of these two amounts is referred to as the combined qualified business income amount. Generally, this deduction is the lesser of the combined qualified business income amount and an amount equal to 20 percent of the taxable income minus the taxpayer's 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. 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 section 199A deduction?

A2. Individuals, trusts and estates with qualified business income, 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 taxpayers 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 (QBI)?**

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.

### **Q5. What is a qualified trade or business?**

A5. A qualified trade or business is any trade or business, with two exceptions:

1. Specified service trade or business (SSTB), which includes 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. This exception only applies if a taxpayer's taxable income exceeds \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers
2. 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 is below \$315,000 for a married couple filing a joint return and \$157,500 for all other taxpayers; the deduction is the lesser of:

- A) 20 percent of the taxpayer's QBI, plus 20 percent of the taxpayer's qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income
- B) 20 percent of the taxpayer's taxable income minus net capital gains.

If the taxpayer's taxable income is above the \$315,000/\$157,500 thresholds, 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 of certain property used by the business. These limitations are phased in for joint filers with taxable income between \$315,000 and \$415,000, and all other taxpayers with taxable income between \$157,500 and \$207,500. The threshold amounts and phase-in range are for tax-year 2018 and will be adjusted for inflation in subsequent years.

### **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 is below the \$315,000/\$157,500 threshold amounts discussed in Q&A #6. 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 UBIA 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 is below \$315,000, if married filing jointly, or \$157,500 for all other filing statuses, it doesn't matter what type of business you are in. 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 gains.

**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 section 199A deduction with respect to any SSTB will be limited. However, because you are within the phase-in range, you may be allowed some section 199A deduction with respect to an SSTB. In addition, for taxpayers above the threshold amount, the section 199A deduction 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. The phase-in range is \$315,000 to \$415,000 for joint filers and \$157,500 to \$207,500 for all other filing statuses. Section 1.199A-1 of the [proposed 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. However, you may be entitled to a deduction for QBI earned from another trade or business that is not an SSTB or from qualified REIT dividends or qualified PTP income.

**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 [proposed rules](#) provide additional information on these limitations. The IRS also issued a [notice of proposed revenue procedure](#) providing methods for determining W-2 wages for purposes of the limitation.

**Q12. How do co-ops qualify for the 199A deduction?**

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

## Disclaimer

These FAQs are not included in the Internal Revenue Bulletin, and therefore may not be relied upon as legal authority. This means that the information cannot be used to support a legal argument in a court case.

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