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# Tax Reform - Qualified Business Income (QBI) Deduction

## Treatment of Business Income of Individuals, Trusts, and Estates - Tax Reform

### **Passthrough Tax Treatment (Qualified Business Income Deduction):**

The Tax Cuts and Jobs Act adds a new deduction for non-corporate taxpayers for qualified business income. The deduction reduces taxable income and is generally 20% of a taxpayer's qualified business income (QBI) from a partnership, S corporation, or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to the trade or business. Certain types of investment-related items are excluded from QBI, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business).

Taxpayers whose taxable income exceeds the threshold amount of \$157,500 (\$315,000 in the case of a joint return) are subject to limitations based on the W-2 wages and the adjusted basis in acquired qualified property. For service related businesses, there is a separate phase-out if taxable income exceeds the threshold amount.

The deduction is taken for partnerships and S corporations at the partner or shareholder level. Trusts and estates are eligible for the deduction. W-2 wages and the adjusted basis in acquired qualified property are apportioned between the trust or estate and the beneficiaries. Specified agricultural or horticultural cooperatives are also eligible for the deduction under special rules. Qualified business income includes only income effectively connected with a U.S. trade or business (or Puerto Rico if all the income is subject to US tax).

The deduction is intended to reduce the tax rate on qualified business income to a rate that is closer to the new corporate tax rate.

**Deduction scenarios for a single activity (PTP, REIT, and Cooperatives bypass this activity level limitation):**

There are 6 main scenarios for the activity by activity level deduction with regard to the phase-in of the wages/property limits, phase-out of the credit, and if it's a specified service business. Note: these activity level deduction amounts will also be subject to an overall tax-return level taxable income limitation.

**Simplified Worksheet Calculations:**

- ▶ **Scenario 1**
- ▶ **Scenario 2**

**Complex Worksheet Calculations:**

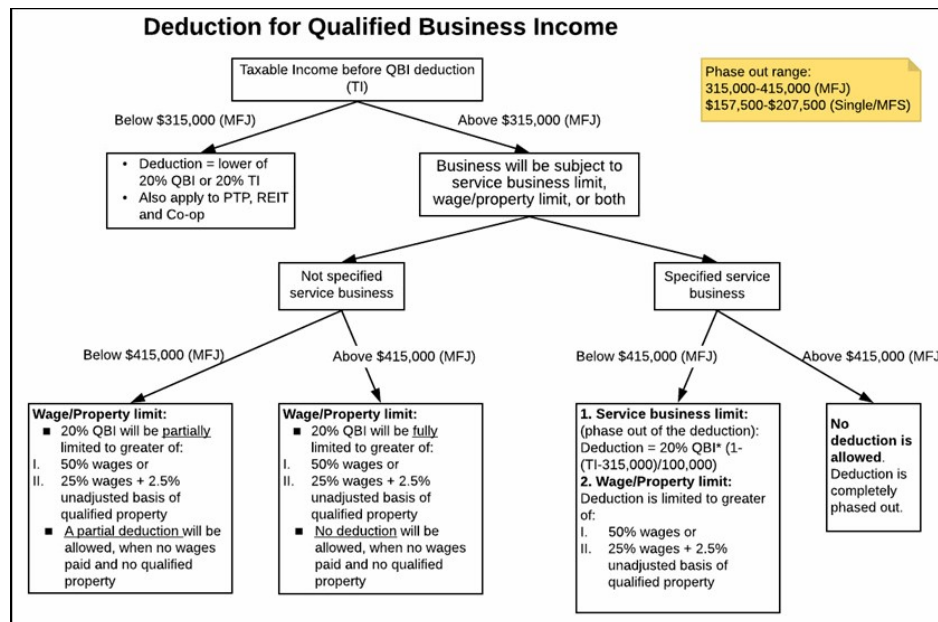
- ▶ **Scenario 3**
- ▶ **Scenario 4**
- ▶ **Scenario 5**

► Scenario 6

**Deduction limitation at the tax return level:**

After computing the activity by activity deduction amounts, each of these amounts get combined together along with 20% of PTP qualified business income, 20% of REIT dividends, and 20% of cooperative dividends for the return level taxable income limitation. Basically, the overall deduction is limited to a maximum of 20% of taxable income. Any deduction amount beyond the 20% of taxable income is disallowed completely (no carryover). If the overall deduction amount is negative, that negative amount will carry forward to net against next year’s qualified business income deduction.

**Deduction for Qualified Business Income - Calculation Flow Chart:**



## References:

IRS Tax Cuts and Jobs Act, Provision 11011 Section 199A FAQs  
<https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs>  
Deduction for qualified business income (sec. 1004 of the House bill, sec. 11011 of the Senate amendment, and sec. 199A of the Code)

## Other Articles to Try:

[2018 Individual and Business Tax Reform - Summary of Changes](#)  
[Entity Selection Calculator - Interactive Worksheet](#)  
[New for Tax Year 2018 Lacerte - Qualified Business Income \(QBI\) Defined](#)  
[Qualified Business Income 199A - Specified Service Trade or Business \(SSTB\)](#)  
[Lacerte Simplified Worksheet Section 199A - Qualified Business Income Deduction](#)  
[Lacerte Complex Worksheet Section 199A - Qualified Business Income Deduction](#)  
[ProSeries Simplified Worksheet Section 199A - Qualified Business Income Deduction](#)

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