

DEDUCTIONS AND CREDITS

# Qualified Business Income Estimator

SAMPLE

# Estimated Tax Deduction from Qualified Business Income

## Qualified Business Income Deduction – In General

The Tax Cuts and Jobs Act of 2017 created §199A which allows a deduction of up to 20% against Qualified Business Income (QBI). The deduction is available for all owners of pass-through entities (i.e., S corporations, sole proprietorships, partnerships, or LLCs taxed as such) who report taxable income of less than \$340,100 if married filing jointly (\$170,050 for all other filers). For those taxpayers whose income exceeds the \$340,100/\$170,050 threshold, certain limitations begin to apply and are fully phased in at \$440,100 (\$220,050 for all other filers).

For income from a trade or business that is not a specified service provider (discussed below), the deduction is the lesser of:

- 20% of QBI; or
- The greater of:
  - 50% of W-2 wages (including W-2 wages paid to owners but not including payments made to contractors); or
  - The sum of 25% of W-2 wages and 2.5% of the unadjusted basis of depreciable assets.

For specified service providers, the deduction is phased out between \$340,100 and \$440,100 (or \$170,050 and \$220,050 if not married filing jointly) and is unavailable if taxable income exceeds \$440,100/\$220,050. A specified service provider is any trade or business that performs services such as medical, dental, accounting, legal actuarial, consulting, performing arts, athletics, or financial, brokerage, or investment management services.<sup>1</sup>

In addition, the calculation of an owner's QBI does not include wages or guaranteed payments (payments made from a partnership to a partner) received by the owner. Lastly, the deduction is limited to the lesser of the owner's combined qualified business income amount or 20% of the owner's taxable income minus capital gains income.

## Qualified Business Income Estimation

The following assumptions were considered to estimate your QBI deduction:

- Your pass-through is a specified service provider;
- Your filing status is married filing jointly;
- Your taxable income is \$400,000 and your pass-through income is \$200,000;
- You own 100% of the pass-through;
- The pass-through reports W-2 wages of \$75,000 and the unadjusted basis of the company's assets is \$100,000.

Based on these assumptions, your estimated qualified business income deduction could be as much as \$16,040.

This is only an estimate and is not to be relied on for your actual return; accordingly, please consult your own accountant.

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<sup>1</sup> Architects and engineers were specifically excluded from the specified service provider limitations.

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