

Qualified Business Income Deduction

■ Qualified Business Income Deduction

- Individual taxpayers can deduct up to 20% of qualified business income (QBI)
 - A deduction from AGI to arrive at taxable income
 - In addition to standard or itemized deduction
- New for 2018 and in scope
- Also referred to as Section 199A deduction

■ Qualified Business Income

- Schedule C income (combined if more than one)
- Pass-through entity business income
 - Such as partnerships, S corporations, limited liability companies
 - All pass-through entities with business income are out of scope
- Real Estate Investment Trust (REIT) 199A dividends
- Scope: if taxable income (before the QBI deduction) exceeds \$157,500 (\$315,000 if MFJ) the return is out of scope
 - Special rules apply if threshold is exceeded – out of scope
 - Other scope limitations may reduce these income limits

■ QBI Deduction Implications

- Schedule C is not affected
- Self-employed health insurance deduction is not affected
- IRA deduction is not affected
- Schedule SE tax is not affected

■ Calculating QBI

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- 20% of the lesser of
 - Schedule C profit – a loss on any Schedule C is out of scope
 - Taxable income in excess of any net capital gain* and before the QBI deduction

Plus

- 20% of qualified REIT dividends (Section 199A dividends)
 - Form 1099-DIV has a new box 5 for 199A dividends

* The term “net capital gain” means the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year increased by qualified dividends

REIT and Qualified Business Income

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				OMB No. 1545-0110		2018	Dividends and Distributions
PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends					
		\$					
		1b Qualified dividends					
		\$					
2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain					
\$		\$					
PAYER'S TIN	RECIPIENT'S TIN	2c Section 1202 gain		2d Collectibles (28%) gain			
		\$		\$			
RECIPIENT'S name		3 Nondividend distributions		4 Federal income tax withheld			
		\$		\$			
Street address (including apt. no.)		5 Section 199A dividends		6 Investment expenses			
		\$		\$			
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign tax paid		8 Foreign country or U.S. possession			
		\$					
		9 Cash liquidation distributions		10 Noncash liquidation distributions			
		\$		\$			
		11 Exempt-interest dividends		12 Specified private activity bond interest dividends			
		\$		\$			
		13 State		14 State identification no.		15 State tax withheld	
Account number (see instructions)						\$	
						\$	

Form **1099-DIV** www.irs.gov/Form1099DIV Department of the Treasury - Internal Revenue Service

■ QBI Deduction Example 1 without Capital Gain

- 2018 Schedule C profit (QBI): \$10,000
- 2018 taxable income (before QBI deduction): \$8,100
- QBI deduction is 20% of the lesser of:
 - Schedule C profit (QBI) \$10,000 **or**
 - Taxable income (before the QBI deduction) \$8,100
- $\$8,100 \times 20\% = \$1,620$

■ QBI Deduction Example 2 with Capital gain

- 2018 Schedule C profit (QBI): \$10,000
- 2018 taxable income (before QBI deduction): \$8,100
 - \$700 of \$8,100 is net capital gain income (incl. qualified dividends)
- QBI deduction is 20% of the lesser of
 - Schedule C profit (QBI) \$10,000 or
 - Taxable income in excess of net capital gain income (and before QBI deduction)
 $\$8,100 - \$700 = \$7,400$
- $\$7,400 \times 20\% = \$1,480$

■ QBI Deduction Quality Review

- Review Schedule C for QBI
- Review REIT for box 5 Section 199A dividends
- Verify Form 1040 QBI calculation
- Confirm QBI threshold not exceeded

■ QBI Deduction

