

## **Section 199A Deductions for Qualified Business Income**

One of the most important provisions of the Tax Cuts and Jobs Act is the Section 199A deduction for qualified business income. This provision allows for a deduction of up to 20% of the qualified business income from partnerships, limited liability companies, S corporations, trusts, estates, and sole proprietorships.

This provision was enacted as an offset to the rate cut enacted for C corporations. The rate for C corporations was reduced from a graduated rate up to 35% down to a flat 21%.

Before we explain the specifics of making these calculations, there are a number of definitions and explanations that will make it easier to understand the nuances of the Section 199A deduction calculations. Understanding these will ensure that your calculations using S199A Pro are compliant with the most recent provisions of Section 199A.

### **Basic Definitions and Explanations**

Taxable Income - This is the amount of the taxpayer's taxable income as shown on the taxpayer's income tax return.

Relevant Pass-through Entity (RPE) - A partnership (other than a PTP) or an S corporation that is owned, directly or indirectly by at least one individual, estate, or trust.

Qualified Business Income (QBI) - The net amount of qualified items of income, gain, deduction, and loss with respect to a qualified trade or business of the taxpayer. This includes Section 751 gain or loss for partnerships affecting ordinary income, net operating losses that are disallowed under Section 461(l), and other items of gross income, gain, deduction, and loss connected with the qualified business. The following are not included when determining QBI: Guaranteed payments for the use of capital, Section 481 adjustments, previously disallowed losses, interest income that is not allocable to the trade or business, reasonable compensation or guaranteed payments paid to the taxpayer, qualified REIT dividends, qualified PTP income, qualified cooperative dividends, and net operating losses under Section 172.

The qualified business income should also be reduced by all related business expenses, including self-employment tax, health insurance, and retirement plan contributions. In the case of multiple trades or businesses, these amounts should be allocated based on the gross receipts, or other acceptable means, to each trade or business.

Carryover of Losses - Section 199A provides rules regarding the treatment of losses generated in connection with a taxpayer's qualified trades or businesses. Under these rules, if the net amount of qualified income, gain, deduction, and loss with respect to qualified trades or businesses of the taxpayer for any taxable year is less than zero, such amount shall be treated as a loss from a qualified trade or business in the succeeding taxable year. In practice, this will mean that a taxpayer's net loss generated in Year 1 will be carried forward and reduce the subsequent year's Section 199A deduction.

Capital Gains - Long-term and short-term capital gains or long-term and short-term capital losses are not included in the calculation of qualified business income.

Cooperative (Co-op) Dividends - Cooperative dividends are qualified for a reduced Section 199A deduction; however, they are calculated and aggregated separately from any other Section 199A deductions. Qualified cooperative dividends are not included in qualified business income (QBI).

REIT Dividends - Real Estate Investment Trust (REIT) dividends are qualified for Section 199A deduction; however, they are calculated and aggregated separately from any other Section 199A deductions. REIT dividends are not included as qualified business income (QBI).

PTP Income - Publicly Traded Partnership (PTP) income is qualified for Section 199A deduction; however, all PTP income must be calculated and aggregated separately from any other Section 199A deductions. PTP income is not included as qualified business income (QBI).

Entities (Trade or Business) - Entities that are qualified for the Section 199A deduction must be pass-through entities such as a partnership, Sub Chapter S Corporation, Single and Multi-member Limited Liability Corporations (LLCs), sole proprietorships, Real Estate Investment Trusts (REITs), Publicly Traded Partnerships, trusts and estates, and qualified cooperatives.

Aggregates - A business owner may aggregate 2 or more entities in certain circumstances. The advantage of aggregating entities would allow you to include W-2 wages from another entity and/or the basis of fixed assets for both businesses in order to receive a more favorable Section 199A deduction. Once entities are aggregated, they must continue to be aggregated in future tax years. Certain conditions must be met including, the entities must have common ownership, and the entities must not be a specified service trade or business. In addition, the entities must meet 2 of 3 of the following criteria: The entities must provide the same or similar products, the entities must share the same facilities or resources (common personnel, accounting, legal, etc.), or the businesses must operate in coordination with, or reliance on, other businesses in the aggregated group such as supply chain interdependencies.

Phase Out Brackets - The deduction for a specified service trade or business begins to be phased out when a single taxpayer's income exceeds \$157,500 and is completely phased out when the single taxpayer's taxable income exceeds \$207,500. For married filing jointly taxpayers, the phase-out begins at \$315,000 taxable income and is completely phased out when the taxpayer's income exceeds \$415,000.

Phase Out Percentage - This is the applicable percentage above the taxpayer's threshold phase out amount (\$157,500 for single taxpayers, \$315,000 for married filing jointly taxpayers). At \$207,500 for single taxpayers and \$415,000 for married filing jointly taxpayers the phase out percentage is 100% and taxpayer does not receive a deduction.

Adjustment Rate - For a specified service trade or business the applicable percentage that the Section 199A deduction will be reduced based on the taxpayer income amount above the phase out threshold. This is a linear sliding scale that reaches \$0 deduction once the phase out amount is exceeded. \$207,500 for single taxpayers and \$415,000 for married taxpayers filing jointly.

Specified Service Trade or Business (SSTB) - Doctors, attorneys, accountants, actuaries, consultants, performing artists, paid athletes, financial services, brokerage services, or any trade or business where the principal asset is the reputation or skill of the owner. Engineers and architects are not included as a specified service unless the business is based on the reputation or skill of the owner.

Non-Specified Service Trade or Business (NSSTB) - Any non-service trade or business or any other service not specifically identified above.

Cooperative Sales by Patrons - Sales made by a cooperative must make additional calculations and potential adjustments to calculate their QBI deduction. First, patrons calculate the 20 percent 199A QBI deduction that would apply if they had sold the commodity to a non-cooperative. Then the patron must subtract from that initial deduction amount whichever of the following is smaller:

- 1) 9% of net income attributable to cooperative sale(s); OR
- 2) 50% of qualified W-2 wages they paid to earn that income from the cooperative.

Oil-Related Income - If a cooperative has any income related to oil production, an additional adjustment is necessary. The amount otherwise allowable as a deduction shall be reduced by 3% of the lesser of:

- 1) Oil-related qualified production activities income; OR
- 2) Qualified production activities income of the cooperative for the taxable year; OR
- 3) Taxable income

While the tutorial does not contain examples for cooperative sales and/or cooperative sales with oil production income, the information can be entered to accommodate these alternative calculations.

## **Decision Tree for Qualified Business Income Deduction Calculations**

### **Step 1**

Determine the taxable income bracket that applies to the taxpayer based on marital filing status. Note that for Estates and Trusts, the filing status that applies is "Single".

Marital Filing Status	Minimum Income	Maximum Income
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Single	157,500	207,500
Married	315,000	415,000

## Step 2

Determine the calculation routine that should be used to determine the qualified business income deduction based on the taxable income and the type of services the trade or business provides.

Taxable Income	Specified Service Trade or Business (SSTB)	Non Specified Trade or Business (NSSTB)
Less than minimum bracket amount	Lesser of 20% of taxable income or 20% of qualified business income for all trades or businesses  See example 1	Lesser of 20% of taxable income or 20% of qualified business income for all trades or businesses  See example 1
Greater than minimum bracket amount but less than maximum bracket amount	Lesser of 20% of taxable income or phased out and adjusted qualified business income for all of the trades or businesses. (See Note 1 below)  See example 4	Lesser of 20% of taxable income and adjusted qualified business income for all of the trades or businesses. (See Note 2 below)  See example 5
Greater than maximum bracket amount	No deduction  See example 2	Lesser of 20% of taxable income or the lesser of qualified business income, qualified wages, or qualified fixed assets for all of the trades or businesses. (See Note 3 below)  See example 3

REIT's / PTP's Net Loss

If the aggregated income from REIT's (Real Estate Investment Trusts) and PTP's (publicly traded partnerships) results in a net loss, then the loss is carried over to the subsequent year and used to offset the net income from aggregated REIT's and PTP's. See example 4 included in the Advanced Examples from IRS Proposed Regulation 17892-18 following the Basic Examples below.

#### Entities With a Loss

If any of the entities, including aggregated trades or business, have a loss then the total loss from all entities with losses must be allocated to the other entities based on the income of the entity as a percentage of the total income from all entities reporting income. If the total loss exceeds all entities with income, then the net loss (total losses from all entities with losses less total income from all entities with income) must be carried forward. The carry forward loss is treated as a separate entity and allocated to entities with income. See examples 9, 10, and 11 included in the Advanced Examples from IRS Proposed Regulation 17892-18 following the Basic Examples below.

#### **Basic Examples**

The following five "basic" examples are used to demonstrate some of the fundamentals of calculating the qualified business income deductions. There are also five sample data files distributed with S199A Pro that contain the information from these samples. The name of the sample file containing the data is shown in parentheses.

Following these five basic examples are additional more complex examples. These examples can be found in the IRS proposed regulations that provide additional guidance on qualified business income limitations and calculations. We provide both a summary of each of these examples and the full text of each example. In addition, these examples are also included in sample data files distributed with S199A Pro.

All of the sample data files can be found in a folder labeled SAMPLEDATA in the default S199A Pro data folder (C:\S199A\_DATA).

#### **Example 1** (sample1.s1p)

Dave and Linda Jensen file a joint return and report taxable income of \$310,000. Included in their taxable income is \$10,000 of net capital gain. As you can see in the example, the \$10,000 of capital gain is entered and reduces the taxable income amount.

The Jensens both operate a proprietorship that provides heating and air conditioning services that generated \$280,000 of ordinary net income.

Since the taxable income of the taxpayer is less than the minimum bracket amount of \$315,000, it does not matter if the trade or business is a specified service trade or business (SSTB) or a non specified trade or business (NSSTB).

The S199A qualified business income deduction is the lesser of 20% of the taxable income or 20% of the qualified business income of the trade or business. Since the qualified business income is less than the taxable income, the S199A qualified business income deduction is  $20\% \times \$280,000 = \$56,000$ .

**Example 2** (sample2.s1p)

Dave and Linda Jensen file a joint return and report taxable income of \$450,000. Dave has an interest in an S Corporation that is a consulting firm and as such is classified as a specified service trade or business (SSTB). Dave's interest in the S Corporation results in \$300,000 of ordinary income.

Since the taxable income of the taxpayer (\$450,000) is greater than the maximum allowable threshold for a specified service trade or business (SSTB) for married filing jointly taxpayers (\$415,000), Dave and Linda are not allowed a Section 199A deduction.

**Example 3** (sample3.s1p)

Dave and Linda Jensen file a joint return and report taxable income of \$450,000. Dave has an interest in an S Corporation that is a non-specified service trade or business (NSSTB).

Dave's interest in the S Corporation results in \$300,000 of ordinary income. Dave's allocable share of the S Corporation's W-2 wages is \$80,000 and his share in the unadjusted basis of its qualified property is \$600,000.

To calculate the wage and capital limitation for the Jensen's 50% of the W-2 wages (\$40,000) is compared to the sum of 25% of the W-2 wages (\$20,000) and 2.5% of unadjusted basis of the qualified property immediately after the acquisition or UBIA (\$15,000) which totals \$35,000. The greater of the 2 (\$40,000) is their wage and capital limitation.

**Example 4** (sample4.s1p)

Dave and Linda Jensen file a joint return on which they report taxable income of \$330,000, of which \$300,000 is ordinary income from Dave's interest in an S corporation. The S corporation is not a specified service trade or business. Dave's allocable share of the business's W-2 wages is \$80,000, and his share of the business's unadjusted basis in its qualified property is \$600,000. Because Dave and Linda's taxable income is between the lower and higher thresholds, only a partial wage and capital limitation applies.

The reduction ratio is calculated as  $\$330,000 \text{ less } \$315,000 = \$15,000$  of excess taxable income above the lower threshold, divided by  $\$100,000 = 15\%$ .

Next, the excess amount is calculated. The deductible QBI amount of the business with no wage and capital limitation applied is 20% of QBI of \$300,000 = \$60,000. The deductible QBI amount for the business with a full wage and capital limitation is the greater of (1) 50% of W-2 wages, or \$40,000, or (2) the sum of 25% of W-2 wages (\$20,000) plus 2.5% of the unadjusted basis of

the qualified property immediately after its acquisition (UBIA):  $\$600,000 \times 0.025 = \$15,000$ , for a sum of  $\$35,000$ . The deductible QBI amount with a full wage and capital limitation is therefore  $\$40,000$ . The difference between  $\$60,000$  and  $\$40,000$ , or  $\$20,000$ , is the excess amount.

The 15% reduction ratio multiplied by the excess amount of  $\$20,000$  is  $\$3,000$ . The deductible QBI amount for the business is therefore 20% of QBI,  $\$60,000$ , less  $\$3,000$ , or  $\$57,000$ . Because the Jensens have only one qualified business, their combined QBI amount is also  $\$57,000$  before applying the overall limitation of  $\$66,000$  (20% of  $\$330,000$ ). H and W's Sec. 199A deduction is  $\$57,000$ .

#### **Example 5** (sample5.s1p)

Dave and Linda Jensen file a joint return on which they report taxable income of  $\$330,000$ , of which  $\$300,000$  is ordinary income from Dave's interest in an S corporation that is a specified service trade or business (SSTB). Dave's share of the business's W-2 wages is  $\$80,000$ , and his share of the business's unadjusted basis in its qualified property is  $\$600,000$ . Because Dave and Linda's taxable income is between the lower and higher thresholds, and they have a business that is a specified service trade or business, Dave and Linda must calculate their specified service trade or business limitation phase-in.

The applicable percentage is 100% less the ratio of  $([\$330,000 - \$315,000] \div \$100,000) = 1 - 0.15 = 0.85$ , or 85%. Multiplying their QBI, W-2 wages, and unadjusted basis of qualified property by 85%, Dave and Linda have  $\$255,000$  of includible QBI,  $\$68,000$  of includible W-2 wages, and  $\$510,000$  of includible unadjusted basis of qualified property after the limitation on a specified service trade or business.

Dave and Linda must then apply the wage and capital limitation using these includible amounts. The reduction ratio is  $\$15,000$  ( $\$330,000$  less  $\$315,000$ ) of excess taxable income above the lower threshold, divided by  $\$100,000$ , or 15%.

Next, the excess amount is calculated. Dave and Linda's deductible QBI amount, calculated as if no wage and capital limitation applied, is 20% of includible QBI ( $\$255,000$ ), or  $\$51,000$ . Their deductible QBI amount calculated as if the full wage and capital limitation applied is (1) 50% of includible W-2 wages ( $\$68,000$ ), or  $\$34,000$ , or (2) the sum of 25% of includible W-2 wages ( $\$17,000$ ) plus 2.5% of the includible unadjusted basis of the qualified property immediately after its acquisition:  $\$510,000 \times 0.025 = \$12,750$ , for a sum of  $\$29,750$ . Therefore, the hypothetical full wage and capital limitation is  $\$34,000$ . The excess amount is the difference between these two amounts,  $\$51,000 - \$34,000 = \$17,000$ .

The deductible QBI amount after the wage and capital limitation is the deductible QBI amount calculated as if no wage or capital limitation applied ( $\$51,000$ ) less the reduction ratio of 0.15  $\times$  the excess amount of  $\$17,000$  ( $\$2,550$ ), or  $\$48,450$ . Because Dave and Linda have only one qualified business, the combined QBI amount is also  $\$48,450$  before applying the overall limitation of  $\$66,000$  (20% of  $\$330,000$ ). Dave and Linda's Sec. 199A deduction is  $\$48,450$ .

## **Advanced Examples from IRS Proposed Regulation 17892-18**

### Summary of Examples:

Example 1 - Page 114: Single, taxable income below threshold, positive QBI, no W-2 wages or fixed assets, simple 199A calculation.

Example 2 - Page 115: Single, taxable income below threshold with capital gains, 199A calculation limited to 20% of taxable income.

Example 3 - Page 115: Married, taxable income below threshold, S Corporation with positive QBI, no S Corporation W-2 wages or fixed assets, simple 199A calculation.

Example 4 - Page 115: Married, taxable income below threshold, REIT dividend and PTP income, S Corporation with positive QBI, no S Corporation W-2 wages or fixed assets, 199A calculation includes REIT/PTP 199A deduction.

Example 1 - Page 119, Single, taxable income above threshold, positive QBI, no W-2 wages or fixed assets from business, no 199A deduction.

Example 2 - Page 119: Single, taxable income above threshold, business owner (NSSTB), positive QBI, no W-2 wages from business, fixed assets owned by the business, 199A calculation figured based on W-2 wage and fixed asset components.

Example 3 - Page 120: Single, part owner in partnership (NSSTB), taxable income above threshold, positive QBI from partnership, W-2 wages from partnership, fixed assets owned by partnership, 199A calculation figured based on W-2 wage and fixed asset components.

Example 4 - Page 120: Single, part owner in S Corporation (NSSTB), taxable income above threshold, net REIT/PTP loss, positive QBI from S Corporation, W-2 wages from S Corporation, fixed assets owned by S Corporation, 199A calculation figured based on W-2 wage and fixed asset components.

Example 5 - Page 121: Married, part owner in S Corporation (NSSTB), taxable income inside phase-in range, positive QBI from S Corporation, W-2 wages from S Corporation, no fixed assets owned by S Corporation, 199A calculation figured based on W-2 wage and fixed asset component and QBI limitations based on taxable income.

Example 6 - Page 121: Married, part owner in S Corporation (SSTB), taxable income inside phase-in range, positive QBI from S Corporation, W-2 wages from S Corporation, no fixed assets owned by S Corporation, 199A calculation figured based on W-2 wage and fixed asset component and QBI limitations based on taxable income.

Example 7 - Page 122: Single, sole proprietor in 3 businesses (all NSSTB), taxable income over threshold, positive QBI from all businesses, W-2 wages from 2 businesses, no fixed assets owned by any of the businesses, 199A calculation figured based on W-2 wage and fixed asset components.

Example 8 - Page 123: Single, sole proprietor in 3 businesses (all NSSTB) that are aggregated, taxable income over threshold, positive QBI from all businesses and W-2 wages combined together, no fixed assets owned by any of the businesses, 199A calculation figured based on combined W-2 wage and fixed asset components.

Example 9 - Page 123: Single, sole proprietor in 3 businesses (all NSSTB), taxable income over threshold, positive QBI from 2 businesses, loss from one business, W-2 wages from 2 businesses, no fixed assets owned by any of the businesses, loss netted to positive QBI, 199A calculation figured based on W-2 wage and fixed asset components.

Example 10 - Page 124: Single, sole proprietor in 3 businesses (all NSSTB) that are aggregated, taxable income over threshold, positive QBI from 2 businesses netted against loss from 3rd business, W-2 wages combined together, no fixed assets owned by any of the businesses, 199A calculation figured based on combined W-2 wage and fixed asset components.

Example 11 - Page 124: Single, sole proprietor in 3 businesses (all NSSTB), taxable income over threshold, positive QBI from 2 businesses, loss from 3rd business, W-2 wages from 2 businesses, no fixed assets owned by any of the businesses, negative QBI exceeds positive QBI, no 199A deduction, carryover of QBI loss to succeeding year to net against positive QBI.

Full text of examples:

**Example 1 - Page 114** (Reg\_ Page\_114\_ Ex\_01.s1p) - A, an unmarried individual, owns and operates a computer repair shop as a sole proprietorship. The business generated \$100,000 in net taxable income from operations in 2018. A has no capital gains or losses. After allowable deductions not relating to the business, A's total taxable income for 2018 is \$81,000. The business's QBI is \$100,000, the net amount of its qualified items of income, gain, deduction, and loss. A's section 199A deduction for 2018 is equal to \$16,200, the lesser of 20% of A's QBI from the business ( $\$100,000 \times 20\% = \$20,000$ ) and 20% of A's total taxable income for the taxable year ( $\$81,000 \times 20\% = \$16,200$ ).

**Example 2 - Page 115** (Reg\_ Page\_115\_ Ex\_02.s1p) - Assume the same facts as in Example 1 of this paragraph (c)(3), except that A also has \$7,000 in net capital gain for 2018 and that, after allowable deductions not relating to the business, A's taxable income for 2018 is \$74,000. A's taxable income minus net capital gain is \$67,000 ( $\$74,000 - \$7,000$ ). A's section 199A deduction is equal to \$13,400, the lesser of 20% of A's QBI from the business ( $\$100,000 \times 20\% = \$20,000$ ) and 20% of A's total taxable income minus net capital gain for the taxable year ( $\$67,000 \times 20\% = \$13,400$ ).

**Example 3 - Page 115** (Reg\_ Page\_115\_ Ex\_03.s1p) - B and C are married and file a joint individual income tax return. B earned \$500,000 in wages as an employee of an unrelated company in 2018. C owns 100% of the shares of X, an S corporation that provides landscaping services. X generated \$100,000 in net income from operations in 2018. X paid C \$150,000 in wages in 2018. B and C have no capital gains or losses. After allowable deductions not related to X, B and C's total taxable income for 2018 is \$270,000. B's and C's wages are not considered to be income from a trade or business for purposes of the section 199A deduction. Because X is an S corporation, its QBI is determined at the S corporation level. X's QBI is \$100,000, the net amount of its qualified items of income, gain, deduction, and loss. The wages paid by X to C are considered to be a qualified item of deduction for purposes of determining X's QBI. The section 199A deduction with respect to X's QBI is then determined by C, X's sole shareholder, and is claimed on the joint return filed by B and C. B and C's section 199A deduction is equal to \$20,000, the lesser of 20% of C's QBI from the business ( $\$100,000 \times 20\% = \$20,000$ ) and 20% of B and C's total taxable income for the taxable year ( $\$270,000 \times 20\% = \$54,000$ ).

**Example 4 - Page 115** (Reg\_ Page\_115\_ Ex\_04.s1p) - Assume the same facts as in Example 3 of this paragraph (c)(3) except that B also earns \$1,000 in qualified REIT dividends and \$500 in qualified PTP income in 2018, increasing taxable income to \$271,500. B and C's section 199A deduction is equal to \$20,300, the lesser of (i) 20% of C's QBI from the business ( $\$100,000 \times 20\% = \$20,000$ ) plus 20% of B's combined qualified REIT dividends and qualified PTP income ( $\$1,500 \times 20\% = \$300$ ) and (ii) 20% of B and C's total taxable for the taxable year ( $\$271,500 \times 20\% = \$54,300$ ).

**Example 1 - Page 119** (Reg\_ Page\_119\_ Ex\_01.s1p) - D, an unmarried individual, owns several parcels of land that D manages and which are leased to several suburban airports for parking lots. The business generated \$1,000,000 of QBI in 2018. The business paid no wages and the property was not qualified property because it was not depreciable. After allowable deductions unrelated to the business, D's total taxable income for 2018 is \$980,000. Because D's taxable income exceeds the applicable threshold amount, D's section 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. D's section 199A deduction is limited to zero because the business paid no wages and held no qualified property.

**Example 2 - Page 119** (Reg\_ Page\_119\_ Ex\_02.s1p) - Assume the same facts as in Example 1 of this paragraph (d)(4), except that D developed the land parcels in 2019, expending a total of \$10,000,000 to build parking structures on each of the parcels, all of which is depreciable. During 2020, D leased the parking structures and the land to the suburban airports. D reports \$4,000,000 of QBI for 2020. After allowable deductions unrelated to the business, D's total taxable income for 2020 is \$3,980,000. Because D's taxable income is above the threshold amount, the QBI component of D's section 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. Because the business has no W-2 wages, the QBI component of D's section 199A deduction will be limited to the lesser of 20% of the business's QBI or 2.5% of its UBIA of qualified property. Twenty percent of the \$4,000,000 of QBI is \$800,000. Two and one-half percent of the \$10,000,000 UBIA of qualified property is \$250,000. The QBI

component of D's section 199A deduction is thus limited to \$250,000. D's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$250,000) or (ii) 20% of D's taxable income ( $\$3,980,000 \times 20\% = \$796,000$ ). Therefore, D's section 199A deduction for 2020 is \$250,000.

**Example 3 - Page 120** (Reg\_ Page\_120\_ Ex\_03.s1p) - E, an unmarried individual, is a 30% owner of LLC, which is classified as a partnership for Federal income tax purposes. In 2018, the LLC has a single trade or business and reported QBI of \$3,000,000. The LLC paid total W-2 wages of \$1,000,000, and its total UBIA of qualified property is \$100,000. E is allocated 30% of all items of the partnership. For the 2018 taxable year, E reports \$900,000 of QBI from the LLC. After allowable deductions unrelated to LLC, E's taxable income is \$880,000. Because E's taxable income is above the threshold amount, the QBI component of E's section 199A deduction will be limited to the lesser of (i) 20% of E's share of LLC's QBI or (ii) the greater of the W-2 wage or UBIA of qualified property limitations. Twenty percent of E's share of QBI of \$900,000 is \$180,000. The W-2 wage limitation equals 50% of E's share of the LLC's wages (\$300,000) or \$150,000. The UBIA of qualified property limitation equals \$75,750, the sum of (i) 25% of E's share of LLC's wages (\$300,000) or \$75,000 plus (ii) 2.5% of E's share of UBIA of qualified property (\$30,000) or \$750. The greater of the limitation amounts (\$150,000 and \$75,750) is \$150,000. The QBI component of E's section 199A deduction is thus limited to \$150,000, the lesser of (i) 20% of QBI (\$180,000) and (ii) the greater of the limitations amounts (\$150,000). E's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$150,000) or (ii) 20% of E's taxable income ( $\$880,000 \times 20\% = \$176,000$ ). Therefore, E's section 199A deduction is \$150,000 for 2018.

**Example 4 - Page 120** (Reg\_ Page\_120\_ Ex\_04.s1p) - F, an unmarried individual, owns a 50% interest in Z, an S corporation for Federal income tax purposes that conducts a single trade or business. In 2018, Z reported QBI of \$6,000,000. Z paid total W-2 wages of \$2,000,000, and its total UBIA of qualified property is \$200,000. For the 2018 taxable year, F reports \$3,000,000 of QBI from Z. F is not an employee of Z and receives no wages or reasonable compensation from Z. After allowable deductions unrelated to Z and a deductible qualified net loss from a PTP of (\$10,000), F's taxable income is \$1,880,000. Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction will be limited to the lesser of (i) 20% of F's share of Z's QBI or (ii) the greater of the W-2 wage and UBIA of qualified property limitations. Twenty percent of F's share of QBI of \$3,000,000 is \$600,000. The W-2 wage limitation equals 50% of F's share of Z's W-2 wages (\$1,000,000) or \$500,000. The UBIA of qualified property limitation equals \$252,500, the sum of (i) 25% of F's share of Z's W-2 wages (\$1,000,000) or \$250,000 plus (ii) 2.5% of E's share of UBIA of qualified property (\$100,000) or \$2,500. The greater of the limitation amounts (\$500,000 and \$252,500) is \$500,000. The QBI component of F's section 199A deduction is thus limited to \$500,000, the lesser of (i) 20% of QBI (\$600,000) and (ii) the greater of the limitations amounts (\$500,000). F reported a qualified loss from a PTP and has no qualified REIT dividend. F does not net the (\$10,000) loss against QBI. Instead, the portion of F's section 199A deduction related to qualified REIT dividends and qualified PTP income is zero for 2018. F's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$500,000) or (ii) 20% of F's taxable income over

net capital gain ( $\$1,880,000 \times 20\% = \$376,000$ ). Therefore, F's section 199A deduction is  $\$376,000$  for 2018. F must also carry forward the  $\$(10,000)$  qualified loss from a PTP to be netted against F's qualified REIT dividends and qualified PTP income in the succeeding taxable year.

**Example 5 - Page 121** (Reg\_ Page\_121\_ Ex\_05.s1p) - Phase-in range. (i) B and C are married and file a joint individual income tax return. B is a shareholder in M, an entity taxed as an S corporation for Federal income tax purposes that conducts a single trade or business. M holds no qualified property. B's share of the M's QBI is  $\$300,000$  in 2018. B's share of the W-2 wages from M in 2018 is  $\$40,000$ . C earns wage income from employment by an unrelated company. After allowable deductions unrelated to M, B and C's taxable income for 2018 is  $\$375,000$ . B and C are within the phase-in range because their taxable income exceeds the applicable threshold amount,  $\$315,000$ , but does not exceed the threshold amount plus  $\$100,000$ , or  $\$415,000$ . Consequently, the QBI component of B and C's section 199A deduction may be limited by the W-2 wage and UBIA of qualified property limitations but the limitations will be phased in.

(ii) The UBIA of qualified property limitation amount is zero because M does not hold qualified property. B and C must apply the W-2 wage limitation by first determining 20% of B's share of M's QBI. Twenty percent of B's share of M's QBI of  $\$300,000$  is  $\$60,000$ . Next, B and C must determine 50% of B's share of M's W-2 wages. Fifty percent of B's share of M's W-2 wages of  $\$40,000$  is  $\$20,000$ . Because 50% of B's share of M's W-2 wages ( $\$20,000$ ) is less than 20% of B's share of M's QBI ( $\$60,000$ ), B and C must determine the QBI component of their section 199A deduction by reducing 20% of B's share of M's QBI by the reduction amount.

(iii) B and C are 60% through the phase-in range (that is, their taxable income exceeds the threshold amount by  $\$60,000$  and their phase-in range is  $\$100,000$ ). B and C must determine the excess amount, which is the excess of 20% of B's share of M's QBI, or  $\$60,000$ , over 50% of B's share of M's W-2 wages, or  $\$20,000$ . Thus, the excess amount is  $\$40,000$ . The reduction amount is equal to 60% of the excess amount, or  $\$24,000$ . Thus, the QBI component of B and C's section 199A deduction is equal to  $\$36,000$ , 20% of B's  $\$300,000$  share M's QBI (that is,  $\$60,000$ ), reduced by  $\$24,000$ . B and C's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited ( $\$36,000$ ) or (ii) 20% of B and C's taxable income ( $\$375,000 \times 20\% = \$75,000$ ). Therefore, B and C's section 199A deduction is  $\$36,000$  for 2018.

**Example 6 - Page 121** (Reg\_ Page\_121\_ Ex\_06.s1p) - (i) Assume the same facts as in Example 5, except that M was engaged in an SSTB. Because B and C are within the phase-in range, B must reduce the QBI and W-2 wages allocable to B from M to the applicable percentage of those items. B and C's applicable percentage is 100% reduced by the percentage equal to the ratio that their taxable income for the taxable year ( $\$375,000$ ) exceeds their threshold amount ( $\$315,000$ ), or  $\$60,000$ , bears to  $\$100,000$ . Their applicable percentage is 40%. The applicable percentage of B's QBI is ( $\$300,000 \times 40\% =$ )  $\$120,000$ , and the applicable percentage of B's share of W-2 wages is ( $\$40,000 \times 40\% =$ )  $\$16,000$ . These reduced numbers must then be used to determine how B's section 199A deduction is limited.

(ii) B and C must apply the W-2 wage limitation by first determining 20% of B's share of M's QBI as limited by paragraph (i) of this example. Twenty percent of B's share of M's QBI of \$120,000 is \$24,000. Next, B and C must determine 50% of B's share of M's W-2 wages. Fifty percent of B's share of M's W-2 wages of \$16,000 is \$8,000. Because 50% of B's share of M's W-2 wages (\$8,000) is less than 20% of B's share of M's QBI (\$24,000), B and C's must determine the QBI component of their section 199A deduction by reducing 20% of B's share of M's QBI by the reduction amount.

(iii) B and C are 60% through the phase-in range (that is, their taxable income exceeds the threshold amount by \$60,000 and their phase-in range is \$100,000). B and C must determine the excess amount, which is the excess of 20% of B's share of M's QBI, as adjusted in paragraph (i) of this example or \$24,000, over 50% of B's share of M's W-2 wages, as adjusted in paragraph (i) of this example, or \$8,000. Thus, the excess amount is \$16,000. The reduction amount is equal to 60% of the excess amount or \$9,600. Thus, the QBI component of B and C's section 199A deduction is equal to \$14,400, 20% of B's share M's QBI of \$24,000, reduced by \$9,600. B and C's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$14,400) or 20% of B's and C's taxable income ( $\$375,000 \times 20\% = \$75,000$ ). Therefore, B and C's section 199A deduction is \$14,400 for 2018.

**Example 7 - Page 122** (Reg\_ Page\_122\_ Ex\_07.s1p) - (i) F, an unmarried individual, owns as a sole proprietor 100 percent of three trades or businesses, Business X, Business Y, and Business Z. None of the businesses hold qualified property. F does not aggregate the trades or businesses under §1.199A-4. For taxable year 2018, Business X generates \$1 million of QBI and pays \$500,000 of W-2 wages with respect to the business. Business Y also generates \$1 million of QBI but pays no wages. Business Z generates \$2,000 of QBI and pays \$500,000 of W-2 wages with respect to the business. F also has \$750,000 of wage income from employment with an unrelated company. After allowable deductions unrelated to the businesses, F's taxable income is \$2,722,000.

(ii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBI of qualified property limitations. These limitations must be applied on a business-by-business basis. None of the businesses hold qualified property, therefore only the 50% of W-2 wage limitation must be calculated. Because QBI from each business is positive, F applies the limitation by determining the lesser of 20% of QBI and 50% of W-2 wages for each business. For Business X, the lesser of 20% of QBI ( $\$1,000,000 \times 20\text{ percent} = \$200,000$ ) and 50% of Business X's W-2 wages ( $\$500,000 \times 50\% = \$250,000$ ) is \$200,000. Business Y pays no W-2 wages. The lesser of 20% of Business Y's QBI ( $\$1,000,000 \times 20\% = \$200,000$ ) and 50% of its W-2 wages (zero) is zero. For Business Z, the lesser of 20% of QBI ( $\$2,000 \times 20\% = \$400$ ) and 50% of W-2 wages ( $\$500,000 \times 50\% = \$250,000$ ) is \$400.

(iii) Next, F must then combine the amounts determined in paragraph (ii) of this example and compare that sum to 20% of F's taxable income. The lesser of these two amounts equals F's

section 199A deduction. The total of the combined amounts in paragraph (ii) is \$200,400 ( $\$200,000 + 0 + 400$ ). Twenty percent of F's taxable income is \$544,400 ( $\$2,722,000 \times 20\%$ ). Thus, F's section 199A deduction for 2018 is \$200,400.

**Example 8 - Page 123** (Reg\_ Page\_123\_ Ex\_08.s1p) - (i) Assume the same facts as in Example 7 of this paragraph (d)(4), except that F aggregates Business X, Business Y, and Business Z under the rules of §1.199A-4.

(ii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. Because the businesses are aggregated, these limitations are applied on an aggregated basis. None of the businesses holds qualified property, therefore only the W-2 wage limitation must be calculated. F applies the limitation by determining the lesser of 20% of the QBI from the aggregated businesses, which is \$400,400 ( $\$2,002,000 \times 20\%$ ) and 50% of W-2 wages from the aggregated businesses, which is \$500,000 ( $\$1,000,000 \times 50\%$ ). F's section 199A deduction is equal to the lesser of \$400,400 and 20% of F's taxable income ( $\$2,722,000 \times 20\% = \$544,400$ ). Thus, F's section 199A deduction for 2018 is \$400,400.

**Example 9 - Page 123** (Reg\_ Page\_123\_ Ex\_09.s1p) - (i) Assume the same facts as in Example 7 of this paragraph (d)(4), except that for taxable year 2018, Business Z generates a loss that results in (\$600,000) of negative QBI and pays \$500,000 of W-2 wages. After allowable deductions unrelated to the businesses, F's taxable income is \$2,120,000. Because Business Z had negative QBI, F must offset the positive QBI from Business X and Business Y with the negative QBI from Business Z in proportion to the relative amounts of positive QBI from Business X and Business Y. Because Business X and Business Y produced the same amount of positive QBI, the negative QBI from Business Z is apportioned equally among Business X and Business Y. Therefore, the adjusted QBI for each of Business X and Business Y is \$700,000 ( $\$1 \text{ million plus } 50\% \text{ of the negative QBI of } \$600,000$ ). The adjusted QBI in Business Z is \$0, because its negative QBI has been fully apportioned to Business X and Business Y.

(ii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. These limitations must be applied on a business-by-business basis. None of the businesses hold qualified property, therefore only the 50% of W-2 wage limitation must be calculated. For Business X, the lesser of 20% of QBI ( $\$700,000 \times 20\% = \$140,000$ ) and 50% of W-2 wages ( $\$500,000 \times 50\% = \$250,000$ ) is \$140,000. Business Y pays no W-2 wages. The lesser of 20% of Business Y's QBI ( $\$700,000 \times 20\% = \$140,000$ ) and 50% of its W-2 wages (zero) is zero.

(iii) F must combine the amounts determined in paragraph (ii) of this example and compare the sum to 20% of taxable income. F's section 199A deduction equals the lesser of these two amounts. The combined amount from paragraph (ii) of this example is \$140,000 ( $\$140,000 + \$0$ ) and 20% of F's taxable income is \$424,000 ( $\$2,120,000 \times 20\%$ ). Thus, F's section 199A deduction for 2018 is \$140,000. There is no carryover of any loss into the following taxable year for purposes of section 199A.

**Example 10 - Page 124** (Reg\_ Page\_124\_ Ex\_10.s1p) - (i) Assume the same facts as in Example 9 of this paragraph (d)(4), except that F aggregates Business X, Business Y, and Business Z under the rules of §1.199A-4.

(ii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. Because the businesses are aggregated, these limitations are applied on an aggregated basis. None of the businesses holds qualified property, therefore only the W-2 wage limitation must be calculated. F applies the limitation by determining the lesser of 20% of the QBI from the aggregated businesses ( $\$1,400,000 \times 20\% = \$280,000$ ) and 50% of W-2 wages from the aggregated businesses ( $\$1,000,000 \times 50\% = \$500,000$ ), or  $\$280,000$ . F's section 199A deduction is equal to the lesser of  $\$280,000$  and 20% of F's taxable income ( $\$2,120,000 \times 20\% = \$424,000$ ). Thus, F's section 199A deduction for 2018 is  $\$280,000$ . There is no carryover of any loss into the following taxable year for purposes of section 199A.

**Example 11 - Page 124** (Reg\_ Page\_124\_ Ex\_11.s1p) - (i) Assume the same facts as in Example 7 of this paragraph (d)(4), except that Business Z generates a loss that results in  $(\$2,150,000)$  of negative QBI and pays  $\$500,000$  of W-2 wages with respect to the business in 2018. Thus, F has a negative combined QBI of  $(\$150,000)$  when the QBI from all of the businesses are added together ( $\$1$  million plus  $\$1$  million minus the loss of  $(\$2,150,000)$ ). Because F has a negative combined QBI for 2018, F has no section 199A deduction with respect to any trade or business for 2018. Instead, the negative combined QBI of  $(\$150,000)$  carries forward and will be treated as negative QBI from a separate trade or business for purposes of computing the section 199A deduction in the next taxable year. None of the W-2 wages carry forward. However, for income tax purposes, the  $\$150,000$  loss may offset F's  $\$750,000$  of wage income (assuming the loss is otherwise allowable under the Code).

(ii) In taxable year 2019, Business X generates  $\$200,000$  of net QBI and pays  $\$100,000$  of W-2 wages with respect to the business. Business Y generates  $\$150,000$  of net QBI but pays no wages. Business Z generates a loss that results in  $(\$120,000)$  of negative QBI and pays  $\$500$  of W-2 wages with respect to the business. F also has  $\$750,000$  of wage income from employment with an unrelated company. After allowable deductions unrelated to the businesses, F's taxable income is  $\$960,000$ . Pursuant to paragraph (d)(2)(iii)(B) of this section, the  $(\$150,000)$  of negative QBI from 2018 is treated as arising in 2019 from a separate trade or business. Thus, F has overall net QBI of  $\$80,000$  when all trades or businesses are taken together ( $\$200,000$  plus  $\$150,000$  minus  $\$120,000$  minus the carryover loss of  $\$150,000$ ). Because Business Z had negative QBI and F also has a negative QBI carryover amount, F must offset the positive QBI from Business X and Business Y with the negative QBI from Business Z and the carryover amount in proportion to the relative amounts of positive QBI from Business X and Business Y. Because Business X produced 57.14% of the total QBI from Business X and Business Y, 57.14% of the negative QBI from Business Z and the negative QBI carryforward must be apportioned to Business X, and the remaining 42.86% allocated to Business Y. Therefore, the adjusted QBI in Business X is  $\$45,722$  ( $\$200,000$  minus 57.14% of the loss from Business Z ( $\$68,568$ ), minus

57.14% of the carryover loss (\$85,710). The adjusted QBI in Business Y is \$34,278 (\$150,000, minus 42.86% of the loss from Business Z (\$51,432) minus one third of the carryover loss (\$64,290)). The adjusted QBI in Business Z is \$0, because its negative QBI has been apportioned to Business X and Business Y.

(iii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBI of qualified property limitations. These limitations must be applied on a business-by-business basis. None of the businesses hold qualified property, therefore only the 50% of W-2 wage limitation must be calculated. For Business X, 20% of QBI is \$9,144 (\$45,722 x 20%) and 50% of W-2 wages is \$50,000 (\$100,000 x 50%), so the lesser amount is \$9,144. Business Y pays no W-2 wages. Twenty percent of Business Y's QBI is \$6,856 (\$34,278 x 20%) and 50% of its W-2 wages (zero) is zero, so the lesser amount is zero.

(iv) F must then compare the combined amounts determined in paragraph (iii) of this example to 20% of F's taxable income. The section 199A deduction equals the lesser of these amounts. F's combined amount from paragraph (iii) of this example is \$9,144 (\$9,144 plus zero) and 20% of F's taxable income is \$192,000 (\$960,000 x 20%) Thus, F's section 199A deduction for 2019 is \$9,144. There is no carryover of any negative QBI into the following taxable year for purposes of section 199A.

**Example 12 - Page 125** (Reg\_ Page\_125\_ Ex\_12.s1p) - (i) Assume the same facts as in Example 11 of this paragraph (d)(4), except that F aggregates Business X, Business Y, and Business Z under the rules of §1.199A-4. For 2018, F's QBI from the aggregated trade or business is (\$150,000). Because F has a combined negative QBI for 2018, F has no section 199A deduction with respect to any trade or business for 2018. Instead, the negative combined QBI of (\$150,000) carries forward and will be treated as negative QBI from a separate trade or business for purposes of computing the section 199A deduction in the next taxable year. However, for income tax purposes, the \$150,000 loss may offset taxpayer's \$750,000 of wage income (assuming the loss is otherwise allowable under the Code).

(ii) In taxable year 2019, F will have QBI of \$230,000 and W-2 wages of \$100,500 from the aggregated trade or business. F also has \$750,000 of wage income from employment with an unrelated company. After allowable deductions unrelated to the businesses, F's taxable income is \$960,000. F must treat the negative QBI carryover loss (\$150,000) from 2018 as a loss from a separate trade or business for purposes of section 199A. This loss will offset the positive QBI from the aggregated trade or business, resulting in an adjusted QBI of \$80,000 (\$230,000 - \$150,000).

(iii) Because F's taxable income is above the threshold amount, the QBI component of F's section 199A deduction is subject to the W-2 wage and UBI of qualified property limitations. These limitations must be applied on a business-by-business basis. None of the businesses hold qualified property, therefore only the 50% of W-2 wage limitation must be calculated. For the aggregated trade or business, the lesser of 20% of QBI (\$80,000 x 20% = \$16,000) and 50% of

W-2 wages ( $\$100,500 \times 50\% = \$50,250$ ) is  $\$16,000$ . F's section 199A deduction equals the lesser of these amounts ( $\$16,000$ ) and 20% of F's taxable income ( $\$960,000 \times 20\% = \$192,000$ ). Thus, F's section 199A deduction for 2019 is  $\$16,000$ . There is no carryover of any negative QBI into the following taxable year for purposes of section 199A.

**Example 1 - Page 139** (Reg\_ Page\_139\_Ex\_01.s1p) - (i) On January 5, 2012, A purchases for  $\$1$  million and places in service Real Property X in A's trade or business. A's trade or business is not an SSTB. A's basis in Real Property X under section 1012 is  $\$1$  million. Real Property X is qualified property within the meaning of section 199A(b)(6). As of December 31, 2018, A's basis in Real Property X, as adjusted under section 1016(a)(2) for depreciation deductions under section 168(a), is  $\$821,550$ .

(ii) For purposes of section 199A(b)(2)(B)(ii) and this section, A's UBIA of Real Property X is its  $\$1$  million cost basis under section 1012, regardless of any later depreciation deductions under section 168(a) and resulting basis adjustments under section 1016(a)(2).

## **S199A Pro and Data Entry**

### **Home Screen**

The following data elements are entered on the Home screen:

Taxpayer Last and First Name  
Tax Year  
Tax Table (Individual, Estate, Trust)  
Marital Status (Single or Married)  
Taxable Income (from 1040, 1040A or 1041)  
Capital Gains  
Co-op Dividends

REITs and PTPs can be added by clicking the "REITs / PTPs" button.

### **Adding Entities**

Entities are added by clicking the "Add Entity" button on the Home screen. The following data elements are entered on the Entity screen:

Tax ID  
Business Name  
Business Description  
Service Type ( Non-specified service (NSSTB) or Specified service (SSTB) )  
Owner  
Owner Percentage (if less than 100%, then enter 100% of the income, wages, and fixed assets from the business in the next 3 fields and the amounts will be pro-rated)  
Qualified Business Income (income from the trade or business)  
Wages (wages from the trade or business)  
Fixed Assets (qualified fixed assets from the trade or business)  
Co-op Related Income (Yes or No – if yes, then you will need to enter the following fields)  
Co-op Wages  
Co-op Income  
Co-op Oil Income  
Co-op Adjustment (Click the Co-op Adjustment button to review the adjustment calculation)

### **Adding Aggregates**

Aggregates are added by clicking the "Add Aggregate" button on the Home screen. Once an aggregate is created, you can add the separate entities that make up the aggregated business. The following data elements are entered for each aggregate:

Aggregate Name  
Business Description

Service Type (defaults to non-specified service trades or businesses because only these can be included in an aggregate)

Owner

Owner Percentage

After an aggregate has been created, you can then add entities to it. The total qualified business income, wages, and fixed assets will be accumulated from all entities and shown as the total for the aggregate.

After adding an aggregate, you can import “entities” that were entered on the Entity screen. This allows you to move an entity to an aggregate without manually entering it on the Aggregates screen and then deleting it from the entities listing. On the Aggregate’s screen use the “Import Entity” button to import entities.

Conversely, you can also export an entity entered, or imported, into an aggregate by using the “Export Entity” button on the Aggregate’s screen.