Basics of IRC Section 199A Deduction for Qualified Business Income

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Section 199A allows sole proprietors, owners and shareholders of pass through entities a deduction equal to 20% of the taxpayer's qualified business income, ("QBI").

QBI, subject to certain modifications, is income from a trade or business with two exceptions:

- Income from specified service trade or business ("SSBT") which includes performance of services in the fields of health, law, accounting and other fields where the principal asset is the reputation or skill of one or more of its employees; and
- Performing services as an employee.

Section 199A contains numerous exceptions and limitations. For example, the SSBT limitation (and the wage limitations described below) do not apply if the taxpayer's taxable income is below $315,000 for married couples filing jointly and $157,500 for all other taxpayers. If the taxpayer's taxable income for married filing jointly is between $315,000 and $415,000 there is a phase-out of the deduction and the phase-out is applicable for other taxpayers with taxable income of between $157,500 and $207,500.

For taxpayers with QBI above the amounts in the preceding paragraph the 20% deduction the deduction will be equal to:

- THE LESSER OF:

  20% of the taxpayer's QBI; or

- THE GREATER OF:

  50% of the taxpayer's allocable share of the W-2 wages with respect to the

business; or
25% of the taxpayer’s allocable share of W-2 wages with respect to the business plus 2.5% of the taxpayer’s share of the unadjusted basis of all qualified property.

Issues to be addressed include the following:

- Can all entities under common control be aggregated in calculating the 20% deduction?
- Can the compensation of shareholders in an S corporation be reduced in order to increase the amount of QBI subject to the 20% deduction?