



Section 199A: Qualified Business Income Deduction (QBI)

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Acronyms

QBI – Qualified Business Income

QBID – Qualified Business Income Deduction

QTB – Qualified Trade or Business

REIT – Real Estate Investment Trust

PTP – Publicly Traded Partnership

SSTB – Specified Service Trade or Business

**UBIA – Unadjusted Basis Immediately After
Acquisition**



Who is Eligible for the QBID?

- **Individuals**
- **Certain Trusts and Estates**



Who is not Eligible for the QBID?

- **C Corporations**
- **Passthrough entities can not claim the deduction, but provide information to their owners, investors, or beneficiaries to use in calculating their QBID.**



How is the QBID Calculated

Lesser of:

QBI Component* plus REIT/PTP Component

OR

20% (Taxable income, before QBID, less net capital gain)

***Patrons that receive qualified payments from a Specified Agricultural Cooperative must consider the (b)(7) patron reduction.**



What is QBI?

- ❖ **Net amount of income, gain, deduction, and loss from any qualified trade or business.**
 - **May be generated by:**
 - Sole proprietorships,
 - S corporations,
 - Partnerships,
 - Trusts, and
 - Estates



What is QBI? – Cont'd

- ❖ **Net amount of income, gain, deduction, and loss from any qualified trade or business.**
 - **Includes, but is not limited to, the deductible portions of:**
 - S/E tax
 - S/E health insurance
 - Contributions to qualified retirement plans
 - Unreimbursed partnership expenses
 - Business interest allocable to S corporation or partnership



Rentals

Rentals may qualify for the QBID if:

- 1. The rental or licensing of property is to a commonly controlled trade or business operated by an individual or passthrough entity, sometimes referred to as a self-rental,**
- 2. The rental real estate enterprise meets the requirements, and the taxpayer chooses use of, the safe harbor in Rev. Proc. 2019-38,**
- 3. The rental rises to the level of a section 162 trade or business.**



What is Not QBI?

- ❖ **Exclusions include, but are not limited to:**
 - **Capital gains or losses**
 - **Interest income not allocable to a trade or business**
 - **Wage income, reasonable compensation from an S corporation, or guaranteed payments from a partnership**
 - **Items not effectively connected with the conduct of a business within the United States**
 - **Items not includible in taxable income**



Loss Netting

- **Negative QBI from a QTB must offset positive QBI from other QTBs in proportion to their net QBI.**
- **If overall combined QBI is less than zero, the QBI component for the year is zero and the negative amount carries over to offset future year's QBI.**



Loss Netting – Cont'd

- **W-2 wages and UBIA of qualified property from QTBs that produce negative QBI are not taken into account in the taxable year and are not carried over.**



Polling Question

Which of the following statement is true?

- a. Negative QBI is never carried forward.**
- b. Negative QBI that is carried forward will offset positive QBI from other qualified trades or businesses in the subsequent year.**
- c. Negative QBI does not impact the QBID calculation.**
- d. Negative QBI is carried back for 2 years.**



Polling – Correct Response

Which of the following statement is true?

- a. Negative QBI is never carried forward.**
- b. Negative QBI that is carried forward will offset positive QBI from other qualified trades or businesses in the subsequent year.**
- c. Negative QBI does not impact the QBID calculation.**
- d. Negative QBI is carried back for 2 years.**



When do Limitations Apply?

2019

Taxable Income Thresholds

Single - \$160,700

Married Filing Separate - \$160,725

Married Filing Joint - \$321,400

Phase-in Ranges

**Married filing joint +
100,000**

All others + \$50,000

Limitations that are Applicable Above the Threshold:

- Specified service trade or business limitation
- W-2 wage and UBIA of qualified property limitation



Specified Service Trade or Business

For those with taxable income above the threshold, QBI from an SSTB may be limited or excluded.



Specified Service Trade or Business – Cont'd

SSTBs include trades or businesses involved in the performance of services in the fields of:

- Health
- Law
- Accounting
- Actuarial science
- Performing arts
- Consulting
- Athletics
- Financial services
- Brokerage services
- Investment or investment management, trading, or dealing in securities, partnership interests, or commodities
- Or a trade or business where the principal asset is the reputation or skill of one or more of its employees or owners



De Minimis Rule

A trade or business will not be treated as an SSTB if:

- **Gross receipts are \$25 million or less, and**
- **Less than 10% of the gross receipts are from a specified services activity**

OR

- **Gross receipts are greater than \$25 million, and**
- **Less than 5% of the gross receipts are from a specified services activity.**



Polling Question

A domestic specified service trade or business (SSTB) may not be treated as a qualified trade or business when taxpayers' taxable income, before the QBID, is...

- a. at or below the threshold.**
- b. over the threshold but within the phase-in range.**
- c. over the threshold and phase-in range.**
- d. both a and b.**



Polling – Correct Response

A domestic specified service trade or business (SSTB) may not be treated as a qualified trade or business when taxpayers' taxable income, before the QBID, is...

- a. at or below the threshold.**
- b. over the threshold but within the phase-in range.**
- c. over the threshold and phase-in range.**
- d. both a and b.**



**QBI Wage / UBIA of Qualified
Property Limitation**

For taxpayers with taxable income (before the QBID) above the threshold and phase-in range, the QBI for each QTB is limited to the lesser of:

- **20% of QBI from the business or**
- **The greater of:**
 - 50% of W-2 wages paid by the QTB, or
 - 25% of W-2 wages plus 2.5% of the UBIA of qualified property used by the QTB.



W-2 Wages

- **Means the amount paid with respect to a trade or business as W-2 wages to employees for services performed.**
- **Wages must be allocated among various trades or businesses if the taxpayer conducts more than one business.**



W-2 Wages – Cont'd

- **Only wages properly allocable to QBI are includable.**
- **Rev. Proc. 2019-11 provides guidance on methods for determining W-2 wages for purposes of the section 199A W-2 wage limitations.**



Unadjusted Basis Immediately After Acquisition of Qualified Property

- **UBIA of qualified property is generally the asset's basis on the placed in-service date.**
- **Qualified property is tangible property subject to depreciation, held and used for the production of QBI by the QTB on the last day of the taxable year, for which the depreciable period has not ended.**



**Unadjusted Basis Immediately After
Acquisition of Qualified Property – Cont'd**

The depreciable period ends on the later of:

- **10 years after the property is placed in service,
or**
- **the last day of the full year for the applicable
recovery period under section 168.**



How is the QBID Calculated

Lesser of:

QBI Component plus REIT/PTP Component

OR

20% (Taxable income, before QBID, less net capital gain)



**What are REIT Dividends and
PTP Income?**

Qualified REIT Dividends:

- **Dividends received from a REIT that are not capital gain dividends under section 857(b)(3) or qualified dividends under section 1(h)(11).**
- **Reported on Form 1099-DIV, box 5**



**What are REIT Dividends and
PTP Income? – Cont'd**

PTP Income:

- **Qualified items of income, gain, deduction, and loss from a PTP, plus any ordinary gain or loss recognized on the disposition of the PTP interest.**
- **SSTB limitation applies to PTP Income**



Negative Combined REIT Dividends and PTP Income

- **Deductible losses from a PTP must offset qualified income from other PTPs and qualified REIT dividends.**
- **If overall qualified REIT dividends and qualified PTP income are less than zero, the negative amount carries over to offset a future year's qualified REIT dividends and qualified PTP income but does not offset QBI from a trade or business.**



How is the QBID Calculated

Lesser of:

QBI Component plus REIT/PTP Component

OR

20% (Taxable income, before QBID, less net capital gain)



Taxable Income Limitation

20% (Taxable income, before the QBID, less net capital gain)

- **Taxable income is generally AGI less standard/itemized deductions**
- **Net capital gain is computed as follows:**
 - Net long-term capital gain *less*
 - Net short-term capital loss (not below zero), *plus*
 - Qualified dividends (IRC § 1(h)(11))



Polling Question

Net capital gain for section 199A includes which of the following amounts:

- a. Qualified dividends**
- b. REIT dividends**
- c. Short term capital gains**
- d. Long-term capital losses**



Polling – Correct Response

Net capital gain for section 199A includes which of the following amounts:

- a. Qualified dividends**
- b. REIT dividends**
- c. Short term capital gains**
- d. Long-term capital losses**



How is the Deduction Claimed?

- **Form 8995, Qualified Business Income Deduction – Simplified Computation**
 - Taxable income at or below the threshold and not a patron of a specified cooperative.
- **Form 8995-A, Qualified Business Income Deduction**
 - Taxable income above the threshold or a patron of a specified cooperative.



How is the Deduction Claimed? – Cont'd

2019:

- Form 1040 filers claim the deduction on Line 10
- Form 1041 filers claim the deduction on Line 20

2020:

- Form 1040 filers claim the deduction on Line 13
- Form 1041 filers claim the deduction on Line 20



Key Points

- The W-2 Wage and UBIA of qualified property limitation and the SSTB limitation do not apply to taxpayer's whose taxable income is at or below the threshold
- There are three ways a rental may be qualified for purposes of section 199A:
 - Self-rental under Treas. Reg. 1.199A-1(b)(14)
 - Eligible for and relying on the safe harbor in Rev. Proc. 2019-38
 - Rising to the level of a section 162 trade or business



Key Points

- The determination of whether a trade or business is an SSTB is based on the facts and circumstances specific to that trade or business.
- Multiple trades or businesses may be aggregated if they meet the rules for aggregation as outlined in Treas. Reg. 1.199A-4.
- Once aggregated, the aggregation must be consistently reported and applied, unless there is a significant change such that the aggregation requirements are no longer satisfied.



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