



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, DC 20224

SMALL BUSINESS / SELF-EMPLOYED DIVISION

December 9, 2019

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Expiration: December 9, 2021
Impacted IRMs: 4.12.1 and 4.19.17

MEMORANDUM FOR DIRECTOR, FIELD EXAMINATION
DIRECTOR, CAMPUS EXAMINATION

FROM: Maha H. Williams *Maha Williams*
Director, SB/SE Examination-Field and Campus Policy

SUBJECT: Guidance for the qualified business income deduction on a substitute for return

This memorandum provides guidance for the qualified business income (QBI) deduction on a substitute for return (SFR) prepared under IRC section 6020(b). See IRM 4.12.1.8.2.1, IRC 6020(b). Please distribute this information throughout your organization.

Depending on the taxpayer's taxable income, the QBI deduction is subject to multiple limitations including the type of trade or business, the amount of W-2 wages paid by the trade or business, and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Additionally, a qualified business loss or qualified publicly traded partnership loss carried forward from prior years must be considered. Therefore, while a taxpayer may be entitled to claim a QBI deduction on a filed return, the Service will not allow the QBI deduction on an SFR prepared under IRC section 6020(b).

If a taxpayer subsequently files a delinquent tax return that includes a QBI deduction, the Service will consider the deduction following the same policies for other items included on the filed return. See attachment SBSE-04-1219-0054, Qualified Business Income (QBI) Deduction on a Substitute for Return (SFR), for guidance specific to Field Examination and IRM 4.12.1.

This guidance is effective immediately and will be incorporated into IRM 4.12.1, Nonfiled Returns, and IRM 4.19.17, Campus Examination Non-Filer Program, within two years of issuance. If you have questions, you may contact Cathy Demetra, Program Manager, Examination – Field and Campus Policy, Field Exam General Processes.

Attachment SBSE-04-1219-0054, Qualified Business Income (QBI) Deduction on a Substitute for Return (SFR)

cc: [irs.gov](https://www.irs.gov)

Attachment SBSE-04-1219-0054, Qualified Business Income (QBI) Deduction on a Substitute for Return (SFR)

IRM 4.12.1.X, (MM-DD-YYYY)

Qualified Business Income (QBI) Deduction on a Substitute for Return (SFR)

1. A qualified business income (QBI) deduction will not be allowed on a substitute for return (SFR) prepared under IRC section 6020(b).
2. If a taxpayer subsequently files a signed delinquent tax return reporting a QBI deduction, the deduction will be considered following the guidance in IRM 4.12.1.9, Examination of a Secured Delinquent Return.