Note: The draft you are looking for begins on the next page.

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Early release drafts are at IRS.gov/DraftForms and remain there after the final release is posted at IRS.gov/LatestForms. All information about all forms, instructions, and pubs is at IRS.gov/Forms.

Almost every form and publication has a page on IRS.gov with a friendly shortcut. For example, the Form 1040 page is at IRS.gov/Form1040; the Pub. 501 page is at IRS.gov/Pub501; the Form W-4 page is at IRS.gov/W4; and the Schedule A (Form 1040/SR) page is at IRS.gov/ScheduleA. If typing in a link above instead of clicking on it, be sure to type the link into the address bar of your browser, not a Search box.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or publications at IRS.gov/FormsComments. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product.

If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click here.
Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments
For the latest information about developments related to Form 8995 and its instructions, such as legislation enacted after they were published, go to IRS.gov/Form8995.

General Instructions

Purpose of Form
Use Form 8995 to figure your qualified business income (QBI) deduction.

Individual taxpayers and some trusts and estates may be entitled to a deduction up to 20% of their net QBI from a trade or business, including income from a pass-through entity, but not from a C corporation, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. However, your total deduction is limited to 20% of your taxable income, calculated before the QBI deduction, minus net capital gain.

Who Must File
Individuals and eligible estates and trusts that have QBI use Form 8995 to figure the QBI deduction if:

- You have QBI, qualified REIT dividends, or qualified PTP income or loss (all defined later).
- Your 2019 taxable income before your QBI deduction is less than or equal to $160,700 ($160,725 if married filing separately or a married nonresident; $321,400 if married filing jointly), and
- You aren’t a patron in a specified agricultural or horticultural cooperative.

Otherwise, use Form 8995-A, Qualified Business Income Deduction, to figure your QBI deduction.

S corporations and partnerships. S corporations and partnerships aren’t eligible for the deduction, but must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1 to help them figure their deduction. See the Instructions for Form 1120-S, U.S. Income Tax Return for S Corporations, and Form 1065, U.S. Return of Partnership Income.

Cooperatives. Cooperatives aren’t eligible for the deduction. Instead, cooperatives must provide the necessary information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction. See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperatives, for rules applicable to agricultural and horticultural cooperatives.

Estate trusts. To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI for the owned part of the trust as if that QBI had been received directly by the owner. Generally, a non-grantor trust or estate may either claim the QBI deduction or provide information to their beneficiaries to help the beneficiaries figure their deduction. In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate’s or trust’s distributable net income (DNI) for the tax year distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and unadjusted basis immediately after acquisition (UBIA) of qualified property are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, to the extent QBI, W-2 wages, and UBIA of qualified property is allocable to the trust, QBI, W-2 wages, and UBIA of qualified property allocated to beneficiaries aren’t includible in the estate’s or trust’s QBI computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Erecting Small Business Trusts (ESBT). An ESBT must compute the QBI deduction separately for the S and non-S portions of the trust. Form 8995 used to compute the S portion’s QBI deduction must be attached as a PDF to the ESBT tax worksheet filed with Form 1041. When attached to the ESBT tax worksheet, the trust must show that the information is applicable to the S portion only, by writing “ESBT” in the top margin of the Form 8995. See the Instructions for Form 1041.

Determining Your Qualified Trades or Businesses
Your qualified trades and businesses include your trades or businesses for which you’re allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee aren’t qualified trades or businesses. Generally, specified service trades or businesses (SSTBs) aren’t qualified trades or businesses. However, all or a part of the SSTB may be qualified trade or business if your taxable income is below the threshold or within the phase-in range.

An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you’re involved in the activity with continuity and regularity. If you own an interest in a pass-through entity, the trade or business determination is made at that entity’s level. Material participation under section 469 isn’t required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, Notice 2019-07 provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Rental real estate that doesn’t meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it’s a section 162 trade or business.

The rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or business. The trade or business of performing services as an employee isn’t a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 if “Statutory Employee” on Form W-2, box 13, is checked, aren’t QBI. If you were previously an employee of a business and continue to provide substantially the same services to that business after you’re no longer treated as an employee, there is a presumption that
you’re providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You may rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a non-employee.

For more information on if you’re an employee or an independent contractor, see Pub. 15-A, Employer’s Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

SSTBs excluded from your qualified trades or businesses. A SSTB is generally excluded from the definition of qualified trade or business. A SSTB is any trade or business providing services in the fields of:

- Health;
- Law;
- Accounting;
- Actuarial science;
- Performing arts;
- Consulting;
- Athletics;
- Financial services;
- Brokerage services;
- Investing and investment management;
- Trading or dealing in securities;
- Partnership interests;
- Commodities;
- Any trade or business if the principal asset is the reputation or skill of one or more of its employees or owners is defined as any trade of business:
  - Receiving fees, compensation, or other income for endorsing products or services;
  - Licensing or receiving fees, compensation or other income for the use of taxpayer’s image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual’s identity; or
  - Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception 1: If your 2019 taxable income before the QBI deduction is less than or equal to $160,700 ($160,725 if married filing separately or a married nonresident alien; $321,400 if married filing jointly), your SSTB is treated as a qualified trade or business.

Exception 2: If your taxable income before the QBI deduction is more than $160,700 but not $210,700 ($160,725 and $210,725 if married filing separately or a married nonresident alien; $321,400 and $421,400 if married filing jointly), you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of figuring deductions, if you meet the following requirements.

1. You or a group of persons directly or indirectly own 50% or more of each trade or business for majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end.
2. None of the trades or businesses are an SSTB, and
3. The trades or businesses meet at least two of the following factors:
   a. They provide products, property, or services that are the same or that are customarily offered together.
   b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
   c. They are operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you must attach the RPE’s aggregations to your return. You may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, assuming the rules above are met.

If you choose to aggregate multiple trades or businesses, a statement similar to Schedule B (Form 8995-A) must be completed each year to show your trade or business aggregations and must include any aggregation of a RPE in which you hold a direct or indirect interest. Failure to disclose these aggregations may cause them to be disaggregated.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation.

Note. You must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wages and UBIA of qualified property limits. However, these limits will not apply until your income, before the QBI deduction, is more than the threshold. If your income is more than the threshold, you must use Form 8995-A.

Determining Your Qualified Business Income

Your QBI includes items of income, gain, deduction, and loss from your trades or businesses that are effectively connected with the conduct of a trade or business in the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, certain estates and trusts that are included or allowed in figuring your taxable income for the year. To figure the total amount of QBI, you must consider all items that are related to the trade or business. This includes, but isn’t limited to, charitable contributions, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and contributions to qualified retirement plans. QBI doesn’t include any of the following.

- Items that aren’t property included in income.
- Income that isn’t effectively connected with the conduct of a trade or business within the United States (go to IRS.gov/ECI).
- Wage income (except “Statutory Employees” where Form W-2, box 13 is checked).
- Amounts received as reasonable compensation from a S corporation.
- Amounts received as guaranteed payments.
- Amounts received as payments by a partner for services other than in a capacity as a partner.
- Items treated as capital gains or losses under any provision of the Internal Revenue Code (Code).
- Dividends and dividend equivalents.
- Interest income not properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Qualified REIT dividends.
- Qualified PTP income.

See the QBI Flow Chart, later to figure if an item of income, gain, deduction, or loss is included in QBI.

Note. Your QBI doesn’t include any losses or deductions disallowed for use in calculating taxable income in the current year, because losses limited or suspended under certain rules aren’t included or allowed in determining your taxable income for the year. Examples include, but aren’t limited to, section 179 deduction limitations and losses limited by basis, at-risk, passive loss, or section 461 (l), excess business loss rules as losses limitations. Instead, these losses and deductions are taken into account in the tax year they’re included in determining your taxable income. Loss and deduction items that were generated prior to 2018,
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that are included in income during the year, aren’t included in QBI.

When losses or deductions from a trade or business are suspended under any provision of the Code and not available for use in calculating taxable income in the year generated, you must determine the portion of the losses includible in QBI in subsequent years. If your trade or business is an SSTB, the determination of whether it’s a qualified trade or business based on your taxable income is made in the year the loss is incurred. If your income is within the phase-in range in that year, you must determine the applicable percentage of suspended losses or deductions includible in QBI. The losses continue their status as either items of QBI or non-QBI for all subsequent years. Therefore, you must track each category of loss or deduction (e.g., section 465, 469, 1366, etc.) from year to year until the loss is included in taxable income. Each category’s portion of loss allowed in calculating taxable income is treated as qualified business net loss for purposes of calculating taxable income. Each category’s portion of loss carryforward (Form 8995, line 3, or Schedule C (Form 8995-A), line 2) in calculating the current year’s QBI deduction.

Any suspended qualified business loss carryforward from an SSTB, when allowed in subsequent years, won’t be included on the Schedule A (Form 8995-A).

Determining if items included on Schedule K-1 are included in QBI. The amounts reported on your Schedule K-1 as “QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations” from a partnership, S corporation, estate, or trust aren’t automatically included in your QBI. To figure if the item of income, gain, deduction, or loss is included in QBI you must look to how it’s reported on your federal income tax return. For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other section of the Code. Also, a section 1231 gain or loss is only includible in QBI if it isn’t a capital gain or loss. See the QBI Flow Chart, below to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining if information reported on your Form 1099-PATR is included in QBI. The amounts reported to you as your share of a patronage dividends and similar payments on Form 1099-PATR aren’t automatically included in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified income items on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is below the threshold, in which case payments from SSTBs are included in your QBI. If you received qualified payments reported to you on Form 1099-PATR from a specified agricultural or horticultural cooperative, you must reduce your QBI by the patron reduction and use Form 8995-A to compute your QBI deduction.

Determining if items on Schedule C (Form 1040 or 1040-SR) are included in QBI. The net gain or loss reported on your Schedule C (Form 1040 or 1040-SR) isn’t automatically included in your QBI. See the QBI Flow Chart, later to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining Your Qualified REIT Dividends and Qualified PTP Income/Loss. Qualified REIT dividends include any dividends you received from a REIT held for more than 45 days and for which the payment isn’t obligated to someone else and that isn’t a capital gain dividend or qualified dividend, plus, your qualified REIT dividends received from a regulated investment company (RIC). This amount is reported to you on Form 1099-DIV, line 5.

Qualified PTP income or loss includes your share of qualified items of income, gain, deduction, and loss from a PTP. It also may include gain or loss recognized on the disposition of your partnership interest that isn’t treated as a capital gain or loss. Note. PTP income generated by an SSTB may be limited to the applicable percentage or excluded if your taxable income exceeds the threshold, in which case you may need to complete Part II of Schedule A (Form 8995-A). See the instructions for Form 8995-A for more information.

Specific Instructions

Line 1
If you aggregated multiple trades or businesses into a single business, enter the aggregation group name. For example, Aggregation 1, 2, 3, etc., instead of entering the business name, and leave line 1(b) blank.

Note. If you aggregated trades or businesses you must attach Schedule B (Form 8995-A) or similar schedule.

If you are relying on the safe harbor contained in Notice 2019-07, enter each enterprise as identified on the statement required for use on the safe harbor. For example, Enterprise 1, 2, 3, etc.
• S-corporation portion of an ESBT filers: ESBT Tax Worksheet, line 13, plus, ESBT Tax Worksheet, line 11.

**Line 12**
Enter the amount from your tax return as follows.
• Form 1040 or 1040-SR, line 3a, plus your net capital gain. If you’re not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040 or 1040-SR, line 6. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.
• Form 1041-N, line 10b, plus your net capital gain. If you’re not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040-NR, line 14. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.
• Form 1041-N, line 2b(2), plus your net capital gain. For estates or trusts required to file Schedule D (Form 1041), add the qualified dividends to the smaller of Schedule D (Form 1041), line 18a(2), or line 19(2), unless either line 18a(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.
• Form 1041-N, line 2b, plus the smaller of Form 1041-N, Schedule D, line 10 or 11, unless line 10 or 11 is zero or less, in which case nothing is added to the qualified dividends.
• Form 990-T who are trusts, Schedule D (Form 1041), the smaller of line 18(a)(2) or 19(2), unless either line 18(a)(2) or 19(2) is zero or less, in which case the net capital gain for purposes of section 199A is zero.

**Line 15**
Enter this amount on your Form 1040 or 1040-SR, line 10; Form 1040-NR, line 38; Form 1041, line 20; Form 1041-N, line 9; Form 990-T, line 39; S-corporation portion of an ESBT, line 11.

**Line 16**
This is the amount to be carried forward to the next year. This amount will offset QBI in later tax years regardless of whether it’s reported and the trade or business that generated the loss is still in existence. This carryforward doesn’t affect the deductibility of the loss for purposes of any other provisions of the Code.

**Line 17**
If the amount is more than zero the loss must be carried forward to next year. This amount will offset REIT/PTP income in later tax years regardless of whether it’s reported and the trade or business that generated the loss is still in existence. This carryforward doesn’t affect the deductibility of the loss for purposes of any other provisions of the Code.
QBI Flow Chart

Figure 1. Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.

1. Is the item effectively connected with the conduct of a trade or business within the U.S.?
   - Yes
   - No

2. Is the item from a trade or business (this includes general business income and deduction items as well as deductible tax on self-employment income, self-employed health insurance, contributions to qualified retirement plans, charitable deductions, unreimbursed partnership expenses, interest expenses for the purchase of the partnership/S corporation interest/stock)?
   - Yes
   - No

3. If the item is from a pass-through entity (partnership, S corporation, or trust) and the character of the item can’t be determined at the entity level (section 1231 gains/losses, involuntary conversions, interest from debt financed distributions, etc.), did you determine the item to be a ordinary (not capital or personal)? Note: If the item isn’t from a pass-through entity and it doesn’t require a determination at the investor level, skip this test.
   - Yes
   - No

4. Is the item included in figuring your taxable income? Items disallowed or limited, including the basis, at-risk, passive loss, or excess business loss rules, aren’t included in QBI until the year included in taxable income.
   - Yes
   - No

5. Is the item treated as a capital gain (loss) or dividend/dividend equivalent?
   - Yes
   - No

6. Is the item interest income other than interest income allocable to a trade or business? Note: Interest income from an investment of working capital, reserves, or similar accounts isn’t allocable to a trade or business.
   - Yes
   - No

7. Is the item an annuity, other than an annuity received in connection with the trade or business?
   - Yes
   - No

8. Is the item a commodities transaction, foreign currency gain (loss) described in section 954(c)(1)(C) or (D), or from a notional principal contract under section 954(c)(1)?
   - Yes
   - No

9. Is the item income (loss) from a qualified PTP? If “Yes,” it’s not QBI, but it’s included in the REIT/PTP component of the QBI computation. Include this item as a qualified item of income, gain, deduction, or loss from a PTP.
   - Yes
   - No

10. Is the item W-2 wage income (except “Statutory Employees” where Form W-2, box 13, is checked)?
    - Yes
    - No

See Figure 2, QBI Flow Chart (continued).

This item isn’t QBI.
QBI Flow Chart (continued)

Figure 2. Use this chart to help you determine if an item of income, gain, deduction or loss is included in QBI.

11. Is the item an amount received for reasonable compensation from a S corporation, an amount received as a guaranteed payment, or a payment received for services other than in a capacity as a partner under section 707(a)?
   No
   12. Is the item related to a SSTB?
      Yes
      No
      13. Is your taxable income at or below the threshold?
      Yes
      No
      14. Is your taxable income above the threshold and within the phase-in range? If “Yes,” this item is partially includible in QBI. Use Form 8995-A, instead, and complete Schedule A (Form 8995-A).
      Yes
      No

This item is QBI.
This item isn’t QBI.