



Caution: *DRAFT—NOT FOR FILING*

This is an early release draft of the Qualified Business Income Deduction worksheets and related text that are to appear in the 2018 IRS Publication 535, Business Expenses, which the IRS is providing for your information as a courtesy. This early release differs from the initial early release posted in December by indicating that brokerage services do not include services provided by real estate agents and brokers, or insurance agents and brokers. **Do not** rely on draft forms, instructions, and publications for filing. Tax forms, instructions, and IRS publications such as Publication 535 are IRS' interpretations of the tax laws, regulations, and other guidance, but carry no legal weight on their own, and as such are superseded by any such current or future laws, regulations or guidance. Any additional changes to this material will be reflected in the final release of Publication 535. We early release drafts at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms). Final releases of forms, instructions, and publications are posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). All information about forms, instructions, and publications is available at [IRS.gov/Forms](https://www.irs.gov/Forms).

Also, note that almost every form and publication also has its own page on IRS.gov. For example, the Form 1040 page is at [IRS.gov/Form1040](https://www.irs.gov/Form1040); the Publication 535 page is at [IRS.gov/Pub535](https://www.irs.gov/Pub535); and the Schedule A (Form 1040) page is at [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA). If typing in a link instead of clicking on it, be sure to type the link into the address bar of your browser, not in a Search box. Note that these are friendly shortcut links that will automatically redirect to the actual link for the page.

If you wish, you can submit comments about this draft Publication 535 to WI.1040.Comments@IRS.gov. We cannot respond to all comments due to the high volume we receive. Please note that we may not be able to consider some suggestions until the 2019 revisions.



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Publication 535 Draft Worksheet

This draft worksheet from Publication 535, Business Expenses, for tax year 2018, is only available on the Internet. Since it is a draft, it is subject to change. If this worksheet is revised, it will be reposted only if there is a change in the computation. When the final version of Publication 535 becomes available, this draft will be removed.

Generally, you can use Worksheet 12-A to figure your qualified business income deduction.

Comments. You can send us comments from [IRS.gov/FormComments](https://www.irs.gov/FormComments). You can write to the Internal Revenue Service, Tax Forms and Publications Division, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Although we cannot respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax products.

Qualified Business Income Deduction

This chapter covers the rules for determining the [qualified business income](#) (QBI) deduction.

For tax years beginning after 2017, individual taxpayers and some trusts and estates may be entitled to a deduction of up to 20% of their 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. The deduction is subject to multiple limitations, such as the type of trade or business, the taxpayer's taxable income, 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. The deduction can be taken in addition to the standard or itemized deductions. For more information, see section 199A, Notice 2018-64, and Regulations sections 1.199A-1 through 1.199A-6.

Topics

- Taxpayers who may take a QBI deduction
- How to figure the deduction
- Coordination with other Code sections
- Special rules

Taxpayers Who May Take a Qualified Business Income Deduction

Individuals, estates, and trusts may take a QBI deduction.



Get forms and other information faster and easier at:

- [IRS.gov](https://www.irs.gov) (English)
- [IRS.gov/Korean](https://www.irs.gov/Korean) (한국어)
- [IRS.gov/Spanish](https://www.irs.gov/Spanish) (Español)
- [IRS.gov/Russian](https://www.irs.gov/Russian) (Русский)
- [IRS.gov/Chinese](https://www.irs.gov/Chinese) (中文)
- [IRS.gov/Vietnamese](https://www.irs.gov/Vietnamese) (Tiếng Việt)

S corporations and partnerships. S corporations and partnerships are not eligible for the deduction. Instead, S corporations and partnerships pass through the necessary information to their shareholders or partners so they may figure their deduction.

S corporations and partnerships must report each shareholder's or partner's share of the following items for each qualified trade or business on Schedule K-1, so the shareholder or partner may figure their deduction.

- Section 199A QBI.
- Section 199A W-2 wages.
- Section 199A UBIA.
- Section 199A Qualified REIT dividends.
- Section 199A Qualified PTP income.
- QBI allocable to qualified payments received from a specified cooperative.
- Passed-through domestic production activities deduction (DPAD) under section 199A(g) from a specified cooperative.

For more information, see the instructions for Form 1120S, U.S. Income Tax Return for an S Corporation, and Form 1065, U.S. Return of Partnership Income.

Estates and 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 with respect to the owned portion of the trust as if that QBI had been received directly by the owner. Generally, in the case of a non-grantor trust or estate, the trust or estate may either deduct or pass through information to their beneficiaries so the beneficiaries may figure their deduction. In determining the QBI deduction or the amount that must be passed through 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 that is 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 UBIA are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, they must reduce the amounts reported as QBI, W-2 wages, and UBIA to reflect the portion of those amounts that were allocated to beneficiaries.

For more information, see the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Agricultural and horticultural cooperatives. See the Instructions for Form 1120C, U.S. Income Tax Return for Cooperative Associations, for rules applicable to agricultural and horticultural cooperatives.

How To Figure the Deduction

Use one of two worksheets to help you figure your QBI deduction.

1. Use the Qualified Business Income Deduction—Simplified Worksheet in the Instructions for Form 1040 if:

- a. You have QBI, qualified REIT dividends, or qualified PTP income (defined later);
 - b. Your 2018 taxable income before QBI deduction isn't more than \$157,500 (\$315,000 if married filing jointly); and
 - c. You aren't a patron in a specified agricultural or horticultural cooperative.
2. Use Worksheet 12-A and its instructions in this Pub. 535 if:

- a. You have QBI, qualified REIT dividends, or qualified PTP income, and
- b. Your 2018 taxable income before QBI deduction is more than \$157,500 (\$315,000 if married filing jointly); or
- c. You're a patron in a specified agricultural or horticultural cooperative.

Determining your qualified trades or businesses. Your qualified trades and businesses include your section 162 trades or businesses, other than trades or businesses conducted through a C corporation, W-2 wages earned as an employee, and specified service trades or businesses.

In general, to be engaged in a trade or business, you must be involved in the activity with continuity and regularity and your primary purpose for engaging in the activity must be for income or profit. If you own an interest in a pass-through entity, the trade or business determination is made at that entity's level.

The ownership and rental of real property doesn't, as a matter of law, constitute a trade or business, and the issue is ultimately one of fact in which the scope of your activities in connection with the property must be so extensive as to give rise to the stature of a trade or business. However, the rental or licensing of property to a commonly controlled trade or business is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or businesses. The trade or business of performing services as an employee is not a trade or business for purposes of section 199A. Therefore, any amounts reported in box 1 of Form W-2, other than amounts reported in box 1 where the "Statutory Employee" box in box 13 is checked, are not QBI. For more information on whether you are an employee or an independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

Specified service trade or business excluded from your qualified trades or businesses. Specified service trades or businesses generally are excluded from the definition of qualified trade or business income if the taxpayer's taxable income exceeds the threshold. Therefore, no QBI, W-2 wages, or UBIA of the qualified property from the specified trade or business are taken into account in figuring your QBI deduction. If the specified service trade or business is conducted by your pass-through entity, the same limitation applies to the pass-through items regardless of whether you are a passive owner or materially participate in the business.

Exception 1: If your taxable income before the QBI deduction isn't more than \$157,500 (\$315,000 if married filing jointly), your specified service trade or business is a qualified trade or business, and thus may generate income eligible for the QBI deduction.

Exception 2: If your taxable income before the QBI deduction is more than \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly), an applicable percentage of your specified service trade or business is treated as a qualified trade or business. For more information on the applicable percentage and this exception, see the instructions for Schedule A in this publication.

A specified service trade or business is any trade or business providing services in the fields of:

- Health, including physicians, nurses, dentists, veterinarians, physical therapists, psychologists, and other similar healthcare professionals;
- Law, including lawyers, paralegals, legal arbitrators, mediators, and similar professionals;
- Accounting, including accountants, enrolled agents, return preparers, financial auditors, and similar professionals;
- Actuarial science, including actuaries, and similar professionals;
- Performing arts, including actors, directors, singers, musicians, entertainers, and similar artists;
- Consulting, including providing advice and counsel with the intention of influencing decisions made by a government or governmental agency and all attempts to influence legislators and other government officials on behalf of a client by lobbyists, and other similar professionals;
- Athletics, including athletes, coaches, and managers in sports such as baseball, basketball, football, soccer, hockey, martial arts, boxing, bowling, tennis, golf, snowboarding, track and field, billiards, racing, and other athletic performance;
- Financial services, including managing wealth, advising clients with respect to finances, developing retirement plans, developing wealth transition plans, the provision of advisory and other similar services regarding valuations, mergers, acquisitions, dispositions, restructuring (including in title 11 or similar cases), and raising financial capital by underwriting, or acting as a client's agent in the issuance of securities, and similar services;
- Brokerage services, including services in which a person arranges transactions between a buyer and a seller with respect to securities for a commission or fee including services provided by stock brokers and other similar professionals, but not real estate agents and brokers, or insurance agents and brokers;
- Investing and investment management, where a fee is received for providing investing, asset management, or investment management services, including providing advice with respect to buying and selling investments;
- Trading, including the trade or business of trading in securities (as defined in section

475(c)(2)), commodities (as defined in section 475(e)(2)), or partnership interests;

- Dealing in securities, including dealing in securities (as defined in section 475(c)(2)), commodities (as defined in section 475(e)(2)), or partnership interests; or
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees, including:

- Receiving fees, compensation, or other income for endorsing products or services;
- Licensing or receiving fees, compensation or other income for the use of an individual'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.

De minimis rule 1—If your gross receipts are \$25 million or less and 10% or less of the gross receipts are from your specified service trade or business, then your specified service trade or business is a qualified trade or business, and thus may generate income eligible for the QBI deduction.

De minimis rule 2—If your gross receipts are more than \$25 million and 5% or less of the gross receipts are from your specified service trade or business, then your specified service trade or business is a qualified trade or business, and thus may generate income eligible for the QBI deduction.

Incidental rule—If you own both a non-specified service trade or business and a specified service trade or business, the two businesses are required to be combined and both treated as a specified service trade or business for purposes of computing your QBI deduction if:

1. Your non-specified service trade or business has 50% or more common ownership as your specified service trade or business;
2. The two businesses share expenses, such as wages or overhead; and
3. The gross receipts of the non-specified service trade or business are 5% or less of the combined gross receipts of the two businesses.

Similarly, if you own multiple trades or businesses and one of them is a specified service trade or business, one or more of your non-specified service trades or businesses may be required to be combined with the specified service trade or business for purposes of computing your QBI deduction if:

1. There is 50% or more common ownership of the trades or businesses, and
2. 80% or more of non-specified service trade's or business's property or services are provided to the specified service trade or business, or
3. The non-specified service trade or business derives substantially all of its income from the specified service trade or business.

In addition, if the non-specified service trade or business provides less than 80% of its property or services to the specified service trade or business, for which there is 50% or more common ownership, then that portion of the trade or business is treated as a part of the specified service trade or business.

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 within the United States. This includes income from partnerships, S corporations, sole proprietorships, and certain trusts that are included or allowed in determining your taxable income for the year.

Note. Your QBI doesn't include any losses or deductions disallowed under the basis, at-risk, passive loss, or section 461(l) limitations, as they aren't included or allowed in determining your taxable income for the year. Instead, these losses and deductions are taken into account in the tax year they are included in determining your taxable income.

QBI doesn't include any of the following.

- Items that aren't properly includible in income.
- Investment items such as capital gains or losses, dividends, or interest income.
- W-2 income. See [Services performed as an employee excluded from qualified trades or businesses](#), earlier.
- Income that isn't effectively connected with the conduct of business within the United States. (For more information, go to [IRS.gov](#) and type in the key word "effectively connected income.")
- Commodities transaction or foreign currency gains or losses described in section 954(c)(1)(C) or (D).
- Income, loss, or deductions from notional principal contracts under section 954(c)(1)(F).
- Annuities (unless received in connection with the trade or business).
- Reasonable compensation from an S corporation.
- Guaranteed payments.
- Payments received by a partner for services under section 707(a).
- Qualified REIT dividends.
- Qualified PTP income.

Determining your qualified REIT dividends and qualified PTP income/(loss). Qualified REIT dividends include any dividend you received from a real estate investment trust that isn't a capital gain dividend under section 857(b)(3) and isn't a qualified dividend under section 1(h)(11).

Qualified PTP income/(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. It doesn't include any loss or deduction disallowed in determining your taxable income for the year.

W-2 wages. W-2 wages generally include amounts paid to employees for the performance of services, plus elective deferrals (for ex-

ample, contributions to 401(k) plans), deferred compensation, and Roth IRA contributions. Amounts paid to statutory employees when the "Statutory Employee" box in box 13 is checked are not W-2 wages.

If you conduct more than one trade or business, the W-2 wages must be allocated among the various trades or businesses to the business that generated the wage. In addition, only the W-2 wages properly allocable to QBI are includible. W-2 wages are properly allocable to QBI if the associated wage expense is taken into account in computing QBI.

Before allocating W-2 wages among various trades or businesses and/or allocating W-2 wages to QBI, first determine the total amount of W-2 wages. There are three methods to figure your W-2 wages.

- Unmodified box method.
- Modified box 1 method.
- Tracking wages method.

Unmodified box method. Under the unmodified box method, W-2 wages are the smaller of:

1. The sum of the amounts reported in box 1 of the relevant Forms W-2, or
2. The sum of the amounts reported in box 5 of the relevant Forms W-2.

Modified box 1 method. Under the modified box 1 method, W-2 wages are figured as follows.

1. Add the amounts reported in box 1 of the relevant Forms W-2.
2. Add all the amounts described below that have been included in box 1 of the relevant Forms W-2.
 - a. Amounts not considered wages for federal income tax withholding purposes.
 - b. Supplemental unemployment compensation benefits.
 - c. Sick pay or annuity payments.
3. Subtract (2) from (1).
4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
5. Add (3) and (4).

Tracking wages method. Under the tracking wages method, W-2 wages are figured as follows.

1. Add the amounts reported in box 1 of the relevant Forms W-2 that are also wages for federal income tax withholding purposes.
2. Add any amounts reported in box 1 of the relevant Forms W-2 that are both:
 - a. Wages for federal income tax withholding purposes, and
 - b. Supplemental unemployment compensation benefits.
3. Subtract (2) from (1).
4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.

5. Add (3) and (4).

To figure your W-2 wages using one of the three methods above, generally use the sum of the amounts you properly report for each employee on Form W-2, for the calendar year ending with or within your tax year. However, don't use any amounts reported on a Form W-2 filed with the Social Security Administration more than 60 days after its due date (including extensions).

Short tax year. If you have a short tax year, you generally will use the sum of the amounts you properly report for each employee on Form W-2 for the calendar year ending with or within that short tax year. However, if you have a short tax year that doesn't include a calendar year ending within that short tax year, then wages you properly report on Form W-2 that you paid during the short tax year are treated as W-2 wages for that short tax year.

Acquisition or disposition of a trade or business. If you acquired or disposed of a trade or business that causes you and another employer to pay W-2 wages to employees of the acquired or disposed of trade or business during the calendar year, then the W-2 wages for the calendar year of the acquisition or disposition are allocated between each employer

based on the period that the employees of the acquired or disposed of trade or business were employed by each employer. If you have a short tax year that doesn't include a calendar year ending within your short tax year, see [Short tax year](#), earlier.

Non-duplication rule. Amounts that are treated as W-2 wages for a tax year under any method can't be treated as W-2 wages for any other tax year. Also, an amount can't be treated as W-2 wages by more than one taxpayer.

Unadjusted basis immediately after acquisition. For purposes of determining your UBI for all qualified property, the unadjusted basis immediately after acquisition means the basis on the placed-in-service date. Qualified property includes all tangible property subject to depreciation under section 167 that is held and used by the trade or business during the tax year, for which the depreciable period hasn't ended. 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. Additional first-year depreciation, such as bonus depreciation, doesn't affect the applicable recovery period.

Improvements to property are treated as a separate qualified property.

For like-kind exchange and involuntary conversion property, the depreciable period ends on the same date as the relinquished property. However, the depreciable period of any excess basis of the replacement property is determined using the date on which the replacement property is first placed in service.

Generally, property received in a nonrecognition transaction (for example, section 332, 351, 361, 721, or 731) retains the same unadjusted basis and placed-in-service date as that of the transferor. However, for the portion of the transferee's unadjusted basis that exceeds the transferor's unadjusted basis, the portion is treated as a separate qualified property placed in service on the date of the transfer.

Property acquired within 60 days of the year end that is disposed within 120 days without being used by the trade or business for at least 45 days isn't qualified property.

Worksheet 12-A Specific Instructions

Be aware that you may need to fill out Schedule A, B, C, and/or D, as applicable, prior to starting Part I of the worksheet.

Schedule A—Specified Service Trades or Businesses (SSTB)

Keep for Your Records



Caution. Complete Schedule A only if your trade or business is a specified service trade or business and your taxable income is more than \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly). If your taxable income isn't more than \$157,500 (\$315,000 if married filing jointly), and you aren't a patron of agricultural or horticultural cooperative, don't use this worksheet; instead, use the Qualified Business Income Deduction—Simplified Worksheet in the Instructions for Form 1040. Otherwise, complete Schedule D before beginning Part I. If your taxable income is more than \$207,500 (\$415,000 if married filing jointly), your specified service business doesn't qualify for the deduction.

	SSTB 1	SSTB 2	SSTB 3
1a. Trade or business name:	_____	_____	_____
1b. Taxpayer identification number	_____	_____	_____
2. Qualified business income from the trade or business	_____	_____	_____
3. Allocable share of W-2 wages from the trade or business	_____	_____	_____
4. Allocable share of the unadjusted basis of all qualified property	_____	_____	_____
5. Taxable income before qualified business income deduction	_____	_____	_____
6. Threshold. Enter \$157,500 (\$315,000 if married filing jointly)	_____	_____	_____
7. Subtract line 6 from line 5	_____	_____	_____
8. Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	_____	_____	_____
9. Divide line 7 by line 8	_____	_____	_____
10. Applicable percentage. Subtract line 9 from 100%	_____	_____	_____
11. Applicable percentage of qualified business income. Multiply line 2 by line 10. Enter this amount on Schedule C or Part II, line 2, for the corresponding trade or business, as appropriate	_____	_____	_____
12. Applicable percentage of W-2 wages. Multiply line 3 by line 10. Enter this amount on Part II, line 4, for the corresponding trade or business, as appropriate	_____	_____	_____
13. Applicable percentage of the unadjusted basis of qualified property. Multiply line 4 by line 10. Enter this amount on Part II, line 7, for the corresponding trade or business, as appropriate	_____	_____	_____

Schedule A—Specified Service Trades or Businesses (SSTB)

Fill out Schedule A if your trade or business is a specified service trade or business and your taxable income is more than \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly). If your taxable income is \$157,500 or less (\$315,000 if married filing jointly), skip Schedule A. If your taxable income is \$207,500 or greater (\$415,000 if married filing jointly), your specified services business does not qualify for the QBI deduction.

For more information on specified service trades or businesses, see [Specified service](#)

[trade or business excluded from your qualified trades or businesses](#), earlier.

Line 2. Qualified business income from the trade or business. Enter your QBI for each specified service trade or business.

Line 3. Allocable share of W-2 wages from trade or business. Enter your W-2 wages from each specified service trade or business.

Line 4. Allocable share of the unadjusted basis immediately after acquisition. Enter your share of the UBI of qualified property for each specified service trade or business.

Line 5. Taxable income before qualified business income deduction. Enter your taxable income figured without regard to the QBI deduction (Form 1040, line 7, Adjusted gross income, minus Form 1040, line 8, Standard deduction or itemized deductions).

Line 6. Threshold. Enter the threshold amount, \$157,500 (\$315,000 if married filing jointly).

Line 8. Phase-in range. Enter the phase-in range, \$50,000 (\$100,000 if married filing jointly).

Schedule B—Aggregation of Business Operations

Keep for Your Records 

Aggregation:

1. Provide a description of the trade or business and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4.

2. Has this trade or business aggregation changed from the prior year? This includes changes in the aggregation due to a trade or business being formed, acquired, disposed, or ceasing operations. If yes, explain.

3.	(a) Name of trade or business	(b) Taxpayer identification number	(c) Qualified business income/(loss)	(d) W-2 wages	(e) Unadjusted	(f) Qualified
					basis immediately after acquisition	REIT dividends and qualified PTP income/(loss)

4. Totals. Total columns (c), (d), (e) and (f). Enter the total amounts on Schedule C or Parts II and IV of Worksheet 12-A, as appropriate. See instructions

Note. If you have more than one aggregated group, attach additional Schedules B. Name the additional aggregations 2, 3, 4, and so forth.

Schedule B—Aggregation of Business Operations

An individual or pass-through entity may be engaged in more than one trade or business. Each trade or business is a separate trade or business for purposes of applying the W-2 wage limitation or the UBI limitation, discussed earlier. However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of applying the limitations if you met the following requirements.

1. You or a group of persons directly or indirectly own 50% or more of each trade or

business for a majority of the tax year and all trades or businesses use the same tax year end,

2. None of the trades or business are a specified service trade or business, and

3. The trades or business meet at least two of the following factors.

- a. They provide products 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 upon, one or more of the businesses in the aggregated group.

If you choose to aggregate multiple trades or businesses, fill out Schedule B before starting Part I in Worksheet 12-A.

Your aggregations must be reported consistently for all subsequent years, unless there is a change in facts and circumstances that disqualify the aggregation. Schedule B must be completed each year to show your trade or business

aggregations. Failure to disclose such aggregations may cause them to be disaggregate.

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 wage and UBIA limitations.

Line 3(c). Current year qualified business income/(loss). Enter your QBI for each separate trade or business.

Line 3(d). W-2 wages. Enter your W-2 wages from the trade or business.

Line 3(e). Unadjusted basis immediately after acquisition. Enter your UBIA of qualified property from the trade or business.

Line 3(f). Qualified REIT dividends and qualified PTP income. Enter your qualified REIT dividends and qualified PTP income.

Line 4. Totals. If any of your trades or businesses have a net loss for the current year or you have a qualified business net loss carryforward from prior years, you must complete Schedule C before starting Part I.

If none of your trades or businesses have a net loss in the current year and you don't have a qualified business loss carryforward from prior years, enter the total amounts on the appropriate lines of Parts II and IV of Worksheet 12-A.

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Schedule C—Loss Netting and Carryforward

Keep for Your Records 

	(a) Qualified business income/(loss)	(b) Reduction for loss netting	(c) Adjusted qualified business income (combine (a) and (b); if zero or less, enter -0-)
1. _____ _____	_____	_____	_____
2. Qualified business net loss carryforward from prior years	_____	_____	_____
3. Total trade or business losses. Combine the negative amounts on lines 1, column (a), and 2, for all trades and businesses. Enter as a negative number	_____	_____	_____
4. Total trade or business income. Add the positive amounts on line 1, column (a), for all trades and businesses	_____	_____	_____
5. Losses netted with income of other trades or businesses. Enter as a negative number, the smaller of the absolute value of line 3 or line 4. Allocate this amount to each trade or business on line 1, column (b). See instructions	_____	_____	_____
6. Qualified business net loss carryforward. Subtract line 5 from line 3. If greater than zero, enter -0-	_____	_____	_____

Schedule C—Loss Netting and Carryforward

If any of your trades or businesses have a net loss for the current year or you have a qualified business net loss carryforward from prior years, you must complete Schedule C before starting Part I.

Schedule C offsets your trade or business net losses against net income from your other trades or businesses. The net loss must be apportioned among all your trades or businesses with net income in proportion to their net income.

Note. The line items for this schedule are computed out of order: first figure line 1, column (a), and line 2; then skip to lines 3 through 5; and come back to line 1, columns (b) and (c).

Line 1, column (a). Qualified business income or (loss) from the trade or business. Enter each trade's or business's income or loss.

If you aggregated multiple trades or businesses into a single business on Schedule B, enter the aggregation group name, that is Aggregation 1, 2, 3, etc., instead of entering the business name and TIN along with the aggregated trade's or business's total income or loss.

Line 2. Qualified business net loss carryforward from prior years. Enter your qualified business net loss carryforward from prior years, if any. This is the amount reported in the prior year on line 6.

Line 1, column (b). Reduction for loss netting. Apportion the amount from line 5 among all your trades or businesses with net income in proportion to their net income.

Line 1, column (c). Adjusted qualified business income. Subtract line 1, column (b) from column (a); if zero or less, enter -0-. Enter this amount on the corresponding line on Part II.

Note. If the adjusted QBI from the trade or business is zero or less after the reduction for loss netting, then the amount reported for W-2 wages and UBIA of qualified property must be zero for that trade or business, as the actual amounts aren't allowed in computing your qualified business income limitations.

Line 6. Qualified business net loss carryforward. Subtract line 5 from line 3. If greater than zero, enter -0-. The amount reported on this line must be reported in the next tax year on line 2, Qualified business net loss carryforward from prior years.

Note. If you have an overall net loss for the year, you don't qualify for a QBI deduction in the current year.

Part I: Trade, Business, or Aggregation Information

1. (a) Name	(b) Check if specified service	(c) Check if Aggregated	(d) Taxpayer identification number	(e) Check if Patron
A. _____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>
B. _____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>
C. _____	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>

Part II: Determine Your Qualified Business Income Component

	A	B	C
2. Qualified business income from the trade, business, or aggregation. (see instructions)	_____	_____	_____
3. Multiply line 2 by 20% (0.20). If your taxable income is \$157,500 or less (\$315,000 if married filing jointly), skip lines 4 through 12 and enter line 3 on line 13	_____	_____	_____
4. Allocable share of W-2 wages from the trade, business, or aggregation	_____	_____	_____
5. Multiply line 4 by 50% (0.50)	_____	_____	_____
6. Multiply line 4 by 25% (0.25)	_____	_____	_____
7. Allocable share of the unadjusted basis of all qualified property	_____	_____	_____
8. Multiply line 7 by 2.5% (0.025)	_____	_____	_____
9. Add lines 6 and 8	_____	_____	_____
10. Enter the greater of line 5 or line 9	_____	_____	_____
11. W-2 wage and qualified property limitation. Enter the smaller of line 3 or line 10	_____	_____	_____
12. Phased-in reduction. Enter amount from Part III, line 26, if any. See instructions	_____	_____	_____
13. Qualified business income deduction before patron reduction. Enter the greater of line 11 or line 12	_____	_____	_____
14. Patron reduction. Enter the amount from Schedule D, line 6, if any	_____	_____	_____
15. Qualified business income component. Subtract line 14 from line 13	=====	=====	=====
16. Total qualified business income component. Add all amounts reported on line 15	=====	=====	=====

Part III: Phased-in Reduction

Caution. Complete Part III only if your taxable income is more than \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly), and line 10 is less than line 3. Otherwise, skip Part III.

	A	B	C
17. Enter amounts from line 3	_____	_____	_____
18. Enter the amount from line 10	_____	_____	_____
19. Subtract line 18 from line 17	_____	_____	_____
20. Taxable income before qualified business income deduction	_____	_____	_____
21. Threshold. Enter \$157,500 (\$315,000 if married filing jointly)	_____	_____	_____
22. Subtract line 21 from line 20	_____	_____	_____
23. Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	_____	_____	_____
24. Phase-in percentage. Divide line 22 by line 23	_____	_____	_____

25. Total phase-in reduction. Multiply line 19 by line 24	_____
26. Qualified business income after phase-in reduction. Subtract line 25 from line 17. Enter this amount on line 12 for the corresponding trade or business	_____

Part IV: Determine Your Qualified Business Income Deduction

27. Total qualified business income component from all qualified trades, businesses, or aggregations. Enter the amount from Part II, line 16	27. _____
28. Qualified REIT dividends and qualified PTP income or (loss) (see instructions)	28. _____
29. Qualified REIT dividends and qualified PTP loss carryforward from prior years. Enter as a negative number	29. _____
30. Total qualified REIT dividends and qualified PTP income. Add lines 28 and 29. If less than zero, enter -0-	30. _____
31. REIT and PTP component. Multiply line 30 by 20% (0.20)	31. _____
32. Qualified business income deduction before the income limitation. Add lines 27 and 31	32. _____
33. Taxable income before qualified business income deduction	33. _____
34. Net capital gain (see instructions)	34. _____
35. Subtract line 34 from line 33. If zero or less, enter -0-	35. _____
36. Income limitation. Multiply line 35 by 20% (0.20)	36. _____
37. Qualified business income deduction. Enter the smaller of line 32 or line 36	37. _____
38. Total qualified REIT dividend and qualified PTP loss carryforward. Add lines 28 and 29, if zero or greater enter -0-	38. _____
39. DPAD under section 199A(g) allocated from an agricultural or horticultural cooperative. Don't enter more than line 33 minus line 37. Enter this deduction on Form 1040, line 10. See the instructions for Form 1040, line 10	39. _____

Part I—Trade, Business, and Aggregation Information

Before you beginning to fill out Part I, determine if you need to complete Schedule A, B, C, or D by answering the following questions.

1. Do you have a specified service trade or business? If you answered yes, complete Schedule A before starting Part I.
2. Are you choosing to aggregate multiple trades or businesses into a single trade or business? If you answered yes, complete Schedule B before starting Part I.
3. Did any of your trades or businesses have a net loss for the year or do you have a qualified business net loss from prior years? If you answered yes, complete Schedule C before starting Part I.

Line 1. Enter the trade or business name and check the appropriate boxes. If you aggregated multiple trades or businesses into a single business on Schedule B, enter the aggregation group name, for example, Aggregation 1, 2, 3,

etc., instead of entering the business name and leave line 1(d) blank.

line 4 with respect to that trade or business must also be zero.

Part II—Determine Your Qualified Business Income Component

Line 2. Qualified business income from the trade or business. Enter your QBI for each trade or business. The amount reported on line 2 can't be less than zero. See the instructions for Schedule C.

Line 3. Multiple line 2 by 20% (0.20). If your taxable income is \$157,500 or less (\$315,000 if married filing jointly), skip lines 4 through 12 and enter line 3 on line 13.

Line 4. Allocable share of W-2 wages from trade or business. Enter your W-2 wages from the trade or business.

Note. if the QBI on line 2 for the trade or business is zero, then the amount reported on

Line 7. Allocable share of the unadjusted basis immediately after acquisition. Enter your share of the UBIA for all qualified property for the trade or business.

Note. if the QBI on line 2 for the trade or business is zero, then the amount reported on line 7 with respect to that trade or business must also be zero.

Line 14. Patron reduction. Patrons of agricultural or horticultural cooperatives are required to reduce their QBI deduction by the lesser of:

- 9% of QBI allocable to qualified payments from a specified cooperative, or
- 50% of W-2 wages allocable to qualified payments.

If you are a patron of an agricultural or horticultural cooperative, fill out Schedule D, Special Rules for Patrons of Agricultural or Horticultural Cooperatives.

Schedule D—Special Rules for Patrons of Agricultural or Horticultural Cooperatives (Coop)

Keep for Your Records 

Caution. Complete Schedule D only if you're a patron of an agricultural or horticultural cooperative.

	Coop 1	Coop 2	Coop 3
1a. Trade, business, or aggregation name:	_____	_____	_____
1b. Taxpayer identification number	_____	_____	_____
2. Qualified business income allocable to qualified payments received from cooperative	_____	_____	_____

3.	Multiply line 2 by 9% (0.09)	_____	_____	_____
4.	W-2 wages from trade or business allocable to the qualified payments	_____	_____	_____
5.	Multiply line 4 by 50% (0.50)	_____	_____	_____
6.	Patron reduction. Enter the smaller of line 3 or line 5. Enter this amount on Part II, line 14, for the corresponding trade or business	_____	_____	_____

Schedule D—Special Rules for Patrons of Agricultural or Horticultural Cooperatives (Coop)

A specified agricultural or horticultural cooperative is a cooperative that markets or is engaged in the manufacturing, production, growth, or extraction of any agricultural or horticultural products to which Part I of Subchapter T applies. See section 199A(g)(3).

Line 2. Qualified payments received from cooperative. Enter your qualified business income allocable to qualified payments received from the cooperative. Qualified payments include patronage dividends and per-unit retains allocations.

Line 4. W-2 wages from trade or business. Enter your W-2 wages allocable to qualified payments.

Part III—Phased-in Reduction

Fill out Part III if your taxable income is more than \$157,500 but not \$207,500 (\$315,000 and \$415,000 if married filing jointly), and line 10 is smaller than line 3. Otherwise, skip Part III.

Line 20. Taxable income before qualified business income deduction. Enter your taxable income figured without regard to any deduction computed on this worksheet (Form 1040, line 7, Adjusted gross income, minus Form 1040, line 8, Standard deduction or itemized deductions).

Line 21. Threshold. Enter the threshold amount, \$157,500 (\$315,000 if married filing jointly).

Line 23. Phase-in range. Enter the phase-in range, \$50,000 (\$100,000 if married filing jointly).

Part IV—Determine Your Qualified Business Income Deduction

Line 28. Qualified REIT dividends and PTP income. Enter your qualified REIT dividends

and qualified PTP income. If the net amount is a loss, enter as a negative number.

Any resulting loss isn't netted against net positive QBI; instead, the net loss is carried forward to the next tax year and offsets future qualified REIT dividends and qualified PTP income.

Line 29. Qualified REIT dividends and qualified PTP loss carryforward from prior years. Enter your qualified PTP loss carryforward from prior years, if any. Enter as a negative number.

Line 30. Total qualified REIT dividends and qualified PTP income. Add lines 28 and 29. If zero or less, enter -0-. If the amount reported on this line is less than zero, it must be reported in the next tax year on the line for PTP loss carryforward from prior years.

Line 33. Taxable income before qualified business income deduction. Enter your taxable income figured without regard to any deduction computed on this worksheet (Form 1040, line 7, Adjusted gross income, minus Form 1040, line 8, Standard deduction or itemized deductions).

Line 34. Net capital gain. Enter your qualified dividends from Form 1040, line 3a, plus your net capital gain. If you're not required to file Schedule D (Form 1040), your net capital gain is the gain reported on your Schedule 1 (Form 1040), line 13. If you file Schedule D (Form 1040), your net capital gain is the smaller of Schedule D (Form 1040), line 15 or line 16, unless either line is zero or less, in which case your net capital gain is zero.

Line 37. Qualified business income deduction. Enter this amount on Form 1040, line 9.

Line 38. Total qualified REIT dividends and PTP loss carryforward. Add lines 28 and 29; if zero or greater, enter -0-. This loss must be carried over to the next tax year.

Line 39. DPAD allocated from an agricultural or horticultural cooperative. Enter your DPAD allocated from your agricultural or horticultural cooperative, if any. The amount entered on this line can't be more than your taxable income less your qualified business income deduction (line 33 less line 37). Include this de-

duction on Form 1040, line 10, and attach a statement and name it "DPAD 199A(g)" to explain this adjustment that reduces taxable income. See instructions for Form 1040, line 10.

Coordination With Other Code Sections.

A net operating loss under section 172 generally is figured without the QBI deduction, meaning the QBI deduction can't create or increase the net operating loss.

Alternative minimum tax. The QBI deduction that is used to determine regular tax is also used to determine alternative minimum taxable income.

Net earnings from self-employment aren't reduced by the QBI deduction when computing self-employment tax.

Net investment income isn't reduced by the QBI deduction when computing net investment income tax.

Special Rules

Puerto Rico. For purposes of determining QBI, the United States includes Puerto Rico for taxpayers who have taxable income from sources within Puerto Rico that are subject to tax under section 1. Further, W-2 wages are figured by including W-2 wages paid for services performed in Puerto Rico without regard to section 3401(a)(8).



H
How to Figure the Deduction [1](#)

Q
Qualified Business Income
Deduction Worksheet [7](#)

**DRAFT AS OF
January 7, 2019**