

199A Qualified Business Income (QBI):

Review and Planning to Maximize the Benefits of
QBI on the Form 1040

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What we will cover...

- QBI Final Regulations
- Relative Pass-through Entities
- Below the Threshold
- Above the Threshold
- Specified Service Trade or Business
- Netting QBI/QBL
- Aggregation
- Self-rentals (Combining)
- Rev. Proc. 2019-07
- Net Capital Gain
- Planning

To Begin...Know the Law

- §162
- §448
- §168
- §1202
- §1411
- §179
- Know your client
- Know the business
- Know your software

QBI Final Regulations

Proposed Regs vs. Final Regs

- Final Regs officially effective on date of publication in the Federal Register
- Taxpayers may rely on the final regs and the proposed regs, in their entirety, for **taxable years ending in calendar year 2018**
- There are more regulations to come

QBI Final Regulations

- Trade or Business
 - Qualified Business Income
 - Relevant Passthrough Entity (RPE)
 - Specified service trade or business
 - Aggregation election
 - Self-rentals (Combining)
 - Rental real estate activities
 - Net capital gain
- 

Trade or Business Defined for Purposes of §199A

- Is defined as a trade or business that raises to the level of §162 other than the trade or business of performing services as an employee

IRS rejected suggestions to use the §469 passive activity rules

- Taxpayers should report items consistently

If rental activity is treated as a trade or business, also comply with Form 1099 information reporting requirements under §6041

QBI Defined

The net amount of qualified items of income, gain, deduction and loss with respect to a qualified trade or business that is effectively connected with the conduct of a business within the United States.

QBI is not...

- Capital gains
 - Net §1231 gain not in QBI
 - Net §1231 loss reduces QBI
- Dividend income
- Non-business interest income
- Reasonable compensation
- Guaranteed payments
- Net gain from foreign currency transactions...

Relative Pass-through Entities

Pass-through Entities – Relevant Pass-through Entities

- Partnership
- S- Corporation
- Sole proprietorship
- LLCs
- Real estate investors
- Trusts, estates, REITs and qualified cooperatives

C Corp does not qualify

Three Separate Areas to get to QBID

1. Below the threshold

- 20% of QBI, limited to 20% of taxable income

2. Above the threshold

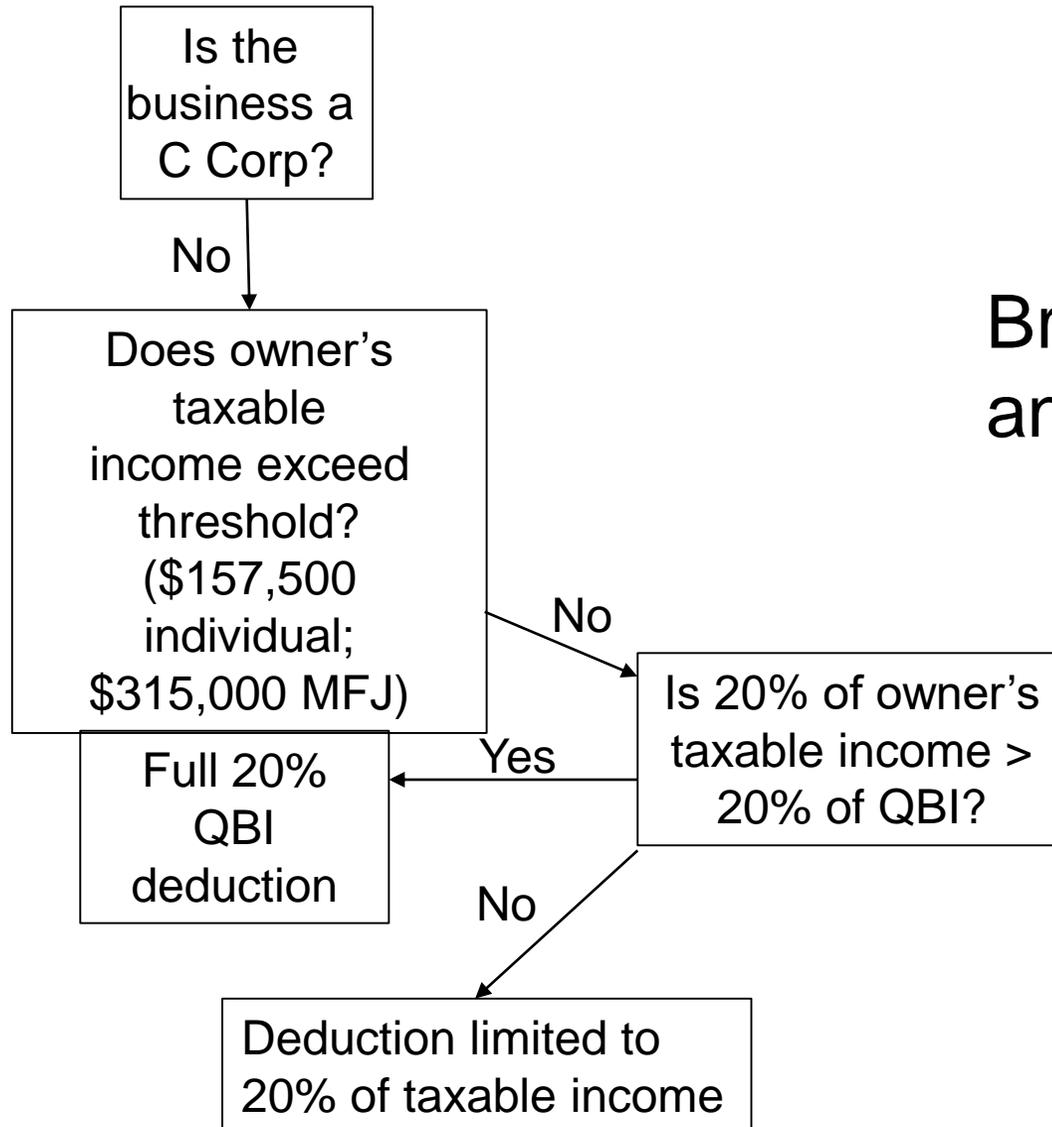
- 50% or 25% + 2.5%...
- No deduction allowed for SSTB

3. 20% of T/Ps qualified REIT dividends and publicly traded partnership (PTP) income

Below the Threshold

A green triangle is located in the bottom right corner of the slide.

Do You Qualify for the QBI Deduction?



Bring it back to taxable income and complete the return

Example 1 – Below the Threshold

- Sch. C income \$100,000
- W-2 income \$34,000
- MFJ
- Form 8995
 - Tentative QBI 20% deduction
 - 20% taxable income limitation

Taxable income?

2018 Qualified Business Income Deduction—Simplified Worksheet

Keep for Your Records 

Before you begin: This worksheet is for taxpayers who:

- Have qualified business income.
- Are not a patron in a specified agricultural or horticultural cooperative.
- Have taxable income less than \$157,500 (\$315,000 if married filing jointly).

Below the Threshold

Simplified QBID Worksheet

1.	(a) Trade or business name	(b) Employer identification number	(c) Qualified business income or (loss)

2. Total qualified business income or (loss). Add the amounts in column 1(c) 2. _____
Note. If reporting qualified business income or (loss) from more than four trades or businesses, see the instructions for line 2 of this worksheet.

3. Qualified business loss carryforward from the prior year. Enter as a negative number 3. _____

4. Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0- 4. _____

5. Qualified business income component. Multiply line 4 by 20% (0.20) 5. _____

6. Qualified REIT dividends and PTP income or (loss) 6. _____

7. Qualified REIT and PTP loss carryforward from the prior year. Enter as a negative number 7. ()

8. Total qualified REIT and PTP income. Add lines 6 and 7. If zero or less, enter -0- 8. _____

9. Multiply line 8 by 20% (0.20) 9. _____

10. Qualified business income deduction before the income limitation. Add lines 5 and 9 10. _____

11. Income before qualified business income deduction 11. _____

12. Net capital gains (see instructions) 12. _____

13. Subtract line 12 from line 11. If zero or less, enter -0- 13. _____

14. Income limitation. Multiply line 13 by 20% (0.20) 14. _____

15. Qualified business income deduction. Enter the smaller of line 10 or line 14 15. _____

16. Total qualified business loss carryforward. Add lines 2 and 3. If more than zero, enter -0- 16. ()

17. Total qualified REIT income and PTP loss carryforward. Add lines 6 and 7. If more than zero, enter -0- 17. ()

2018

**Qualified Business Income Deduction
Simplified Computation**

Department of the Treasury
Internal Revenue Service

▶ Attach to your tax return.

2019

Attachment
Sequence No. **55**

▶ Go to www.irs.gov/Form8995 for instructions and the latest information.

Name(s) shown on return Your taxpayer identification number

Example 1

1	(a) Trade or business name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i			
ii			
iii			
iv			
v			

2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)		
3	Qualified business net (loss) carryforward from the prior year	()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-		
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)		
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-		
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10
11	Taxable income before qualified business income deduction		
12	Net capital gain (see instructions)		
13	Subtract line 12 from line 11. If zero or less, enter -0-		
14	Income limitation. Multiply line 13 by 20% (0.20)		14
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		15
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	()	16
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	()	17

2019

“Combined qualified business income amount”

- The **sum** of the deductible amounts determined for **each qualified trade or business** of the taxpayer; **plus**
- 20% of the aggregate amount of qualified real estate investment trust **(REIT) dividends** and qualified publicly traded **partnership** income

Example 2

- Sch. C income \$100,000
- K-1 income \$100,000
- W-2 income \$34,000
- MFJ
- Worksheet
 - Tentative QBI 20% deduction
 - 20% taxable income limitation

**Qualified Business Income Deduction
Simplified Computation**

Department of the Treasury
Internal Revenue Service

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2019

Attachment
Sequence No. **55**

Name(s) shown on return Your taxpayer identification number

Example 2

	(a) Trade or business name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
1			
	i		
	ii		
	iii		
	iv		
	v		
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)		
3	Qualified business net (loss) carryforward from the prior year		
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-		
5	Qualified business income component. Multiply line 4 by 20% (0.20)		
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)		
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year		
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-		
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		
11	Taxable income before qualified business income deduction		
12	Net capital gain (see instructions)		
13	Subtract line 12 from line 11. If zero or less, enter -0-		
14	Income limitation. Multiply line 13 by 20% (0.20)		
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-		
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-		

QBI Deduction Limited at 1040 Level

- The **sum** of each entity level deduction is limited to 20% of:
 - Taxable income for the year, **over**
 - The sum of net capital gain **plus** the aggregate amount of qualified cooperative dividends for the tax year

In a Nutshell

- Roughly 97% of your clients have taxable income under the threshold
 - So, their deduction is equal to 20% of domestic “qualified business income” from a pass-through entity...**subject to the overall limit based on taxable income**
- Roughly 3% of your clients are impacted by the threshold
 - The deduction is phased out based on 1040 taxable income, unless you have wages and UBIA. SSTB above the threshold, QBI is zero

Above the Threshold

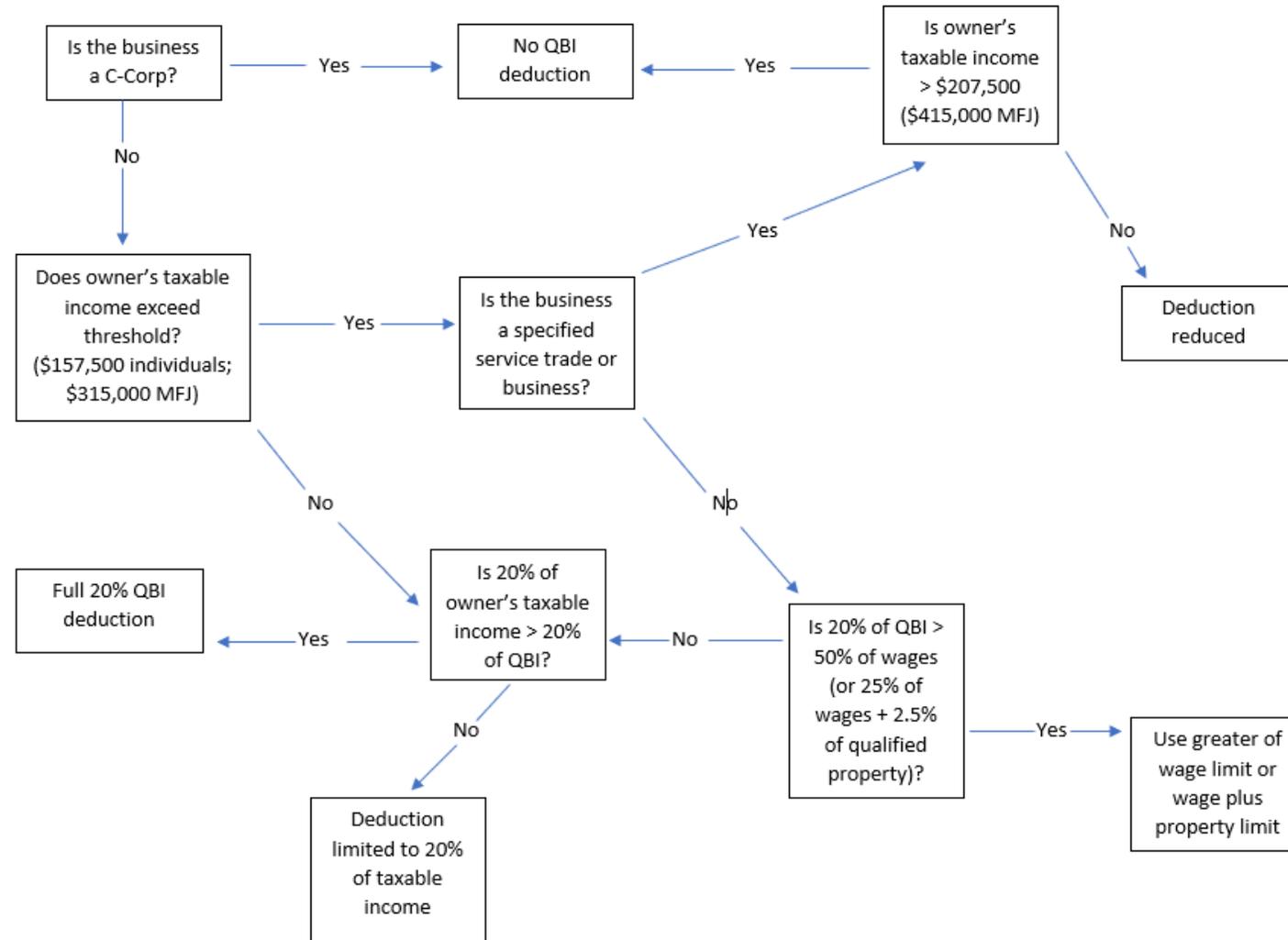


Threshold Phaseouts – Taxable Income

Single >>> MFJ >>>	<\$157,500 <\$315,000	≥\$157,500; ≤\$207,500 ≥\$315,000; ≤\$415,000	>\$207,500 >\$415,000
No wage + No 2.5%	N/A	0 – 100%	0
Yes wage + No 2.5%	N/A	0 – 100%	50% of wages
No wage + Yes 2.5%	N/A	0 – 100%	25% of wages + 2.5%...
Yes wage + Yes 2.5%	N/A	0 – 100%	50% of wages or 25% + 2.5%...

SSTB	N/A	100 – 0%	0
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Do You Qualify for the QBI Deduction?



Form 8995-A, *Qualified Business Income Deduction*

- Over the threshold
- For each entity
- Form 8995-A
 - To accumulate total QBI
 - REIT and PTP

Department of the Treasury
Internal Revenue Service

▶ Attach to your tax return.

▶ Go to www.irs.gov/Form8995A for instructions and the latest information.

2019

Attachment
Sequence No. **55A**

Name(s) shown on return

Your taxpayer identification number

Part I Trade, Business, or Aggregation Information

Complete Schedule A, B, C, and/or D, as applicable, before starting Part I. Attach additional worksheets when needed. See instructions.

1	(a) Trade, business, or aggregation name	(b) Check if specified service	(c) Check if aggregation	(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 Adjusted Qualified Business Income

	A	B	C
2 Qualified business income from the trade, business, or aggregation. See instructions	2		
3 Multiply line 2 by 20% (0.20). If your taxable income is \$160,700 or less (\$160,725 if married filing separately; \$321,400 if married filing jointly), skip lines 4 through 12 and enter the amount from line 3 on line 13	3		
4 Allocable share of W-2 wages from the trade, business, or aggregation	4		
5 Multiply line 4 by 50% (0.50)	5		
6 Multiply line 4 by 25% (0.25)	6		
7 Allocable share of the unadjusted basis immediately after acquisition (UBIA) of all qualified property	7		
8 Multiply line 7 by 2.5% (0.025)	8		
9 Add lines 6 and 8	9		
10 Enter the greater of line 5 or line 9	10		
11 W-2 wage and qualified property limitation. Enter the smaller of line 3 or line 10	11		
12 Phased-in reduction. Enter amount from Part III, line 26, if any. See instructions	12		
13 Qualified business income deduction before patron reduction. Enter the greater of line 11 or line 12	13		
14 Patron reduction. Enter the amount from Schedule D, line 6, if any	14		
15 Qualified business income component. Subtract line 14 from line 13	15		
16 Total qualified business income component. Add all amounts reported on line 15 ▶	16		

Part III Phased-in Reduction

Complete Part III only if your taxable income is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing separately; \$321,400 and \$421,400 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	17		
18	Enter the amounts from line 10	18		
19	Subtract line 18 from line 17	19		
20	Taxable income before qualified business income deduction	20		
21	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)	21		
22	Subtract line 21 from line 20	22		
23	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	23		
24	Phase-in percentage. Divide line 22 by line 23	24	%	
25	Total phase-in reduction. Multiply line 19 by line 24	25		
26	Qualified business income after phase-in reduction. Subtract line 25 from line 17. Enter this amount here and on page 1, Part II, line 12, for the corresponding trade or business	26		

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 publicly traded partnership (PTP) income or (loss). See instructions	28		
29	Qualified REIT dividends and PTP (loss) carryforward from prior years	29	()	
30	Total qualified REIT dividends and PTP income. Combine 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 before the domestic production activities deduction (DPAD) under section 199A(g). Enter the smaller of line 32 or line 36 ▶	37		
38	DPAD under section 199A(g) allocated from an agricultural or horticultural cooperative. Don't enter more than line 33 minus line 37	38		
39	Total qualified business income deduction. Add lines 37 and 38 ▶	39		
40	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 28 and 29. If zero or greater, enter -0-	40	()	

Schedule A Specified Service Trades or Businesses

Complete Schedule A only if your trade or business is a specified service trade or business (see instructions) and your taxable income is more than \$160,700 but not \$210,700 (\$160,725 but not \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly). If your taxable income isn't more than \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly) and you're not a patron of an agricultural or horticultural cooperative, don't file this form; instead, file Form 8995, Qualified Business Income Deduction Simplified Computation. Otherwise, complete Schedule D before beginning Schedule A. If your taxable income is more than \$210,700 (\$210,725 if married filing separately; \$421,400 if married filing jointly), your specified service trade or business doesn't qualify for the deduction.

Part I Other Than Publicly Traded Partnerships

		SSTB 1	SSTB 2	SSTB 3
1a	Trade or business name	1a		
b	Taxpayer identification number	1b		
2	Qualified business income or (loss) from the trade or business	2		
3	Allocable share of W-2 wages from the trade or business	3		
4	Allocable share of the UBIA of all qualified property	4		
5	Taxable income before qualified business income deduction	5		
6	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)	6		
7	Subtract line 6 from line 5	7		
8	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	8		
9	Divide line 7 by line 8	9		
10	Applicable percentage. Subtract line 9 from 100%	10		
11	Applicable percentage of qualified business income or (loss). Multiply line 2 by line 10. Enter this amount on Schedule C or on page 1, Part II, line 2, for the corresponding trade or business, as appropriate. See instructions	11		
12	Applicable percentage of W-2 wages. Multiply line 3 by line 10. Enter this amount on page 1, Part II, line 4, for the corresponding trade or business, as appropriate. See instructions	12		
13	Applicable percentage of the UBIA of qualified property. Multiply line 4 by line 10. Enter this amount on page 1, Part II, line 7, for the corresponding trade or business, as appropriate. See instructions	13		

Part II Publicly Traded Partnership

		PTP SSTB 1	PTP SSTB 2	PTP SSTB 3
14	Trade or business name	14		
15	Taxpayer identification number	15		
16	Qualified PTP income or (loss)	16		
17	Total PTP SSTB income or (loss). Combine all amounts on line 16		17	
18	Taxable income before qualified business income deduction		18	
19	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)		19	
20	Subtract line 19 from line 18		20	
21	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)		21	
22	Divide line 20 by line 21		22	
23	Applicable percentage. Subtract line 22 from 100%		23	%
24	Applicable percentage of qualified PTP income or (loss). Multiply line 17 by line 23. Include this amount on page 2, Part IV, line 28		24	

Schedule B Aggregation of Business Operations

Aggregation 1:

1 Provide a description of the aggregated trade or business and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. In addition, if you hold a direct or indirect interest in a relevant pass-through entity (RPE) that aggregates multiple trades or businesses, you must attach a copy of the RPE's aggregations.

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 of, 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) UBIA
4	Totals. Total columns (c), (d), and (e). Enter the total amounts on Schedule C or on page 1, Part II, for the corresponding aggregation, as appropriate. See instructions				

Aggregation 2:

1 Provide a description of the aggregated 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 of, 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) UBIA
4	Totals. Total columns (c), (d), and (e). Enter the total amounts on Schedule C or on page 1, Part II, for the corresponding aggregation, as appropriate. See instructions				

Specified Service Trade or Business (SSTB)

SSTB

- Every trade or business is a qualified business other than the trade or business of performing services as an employee, and a specified service trade or business
- Test only applies **above** the threshold

Final Regs -- SSTB

- Any trade or business involving the performance of services in the fields of **health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing or investment management, trading, dealing in securities, partnership interests, or commodities...**
 - Accounting – “Accountants, enrolled agents, return preparers, financial auditors, and similar professionals performing services in their capacity as such.”

SSTB, Cont.

- “any trade or business where the principal asset of such trade or business is the **reputation or skill** of one or more of its owners or employees.”
- Final Regs. clarify...
 - Endorsing products or services
 - Use of an individual image, likeness name, signature, voice trademark or any other symbols associated with the individual’s identity
 - Appearing at an event or on radio, television, or another media format

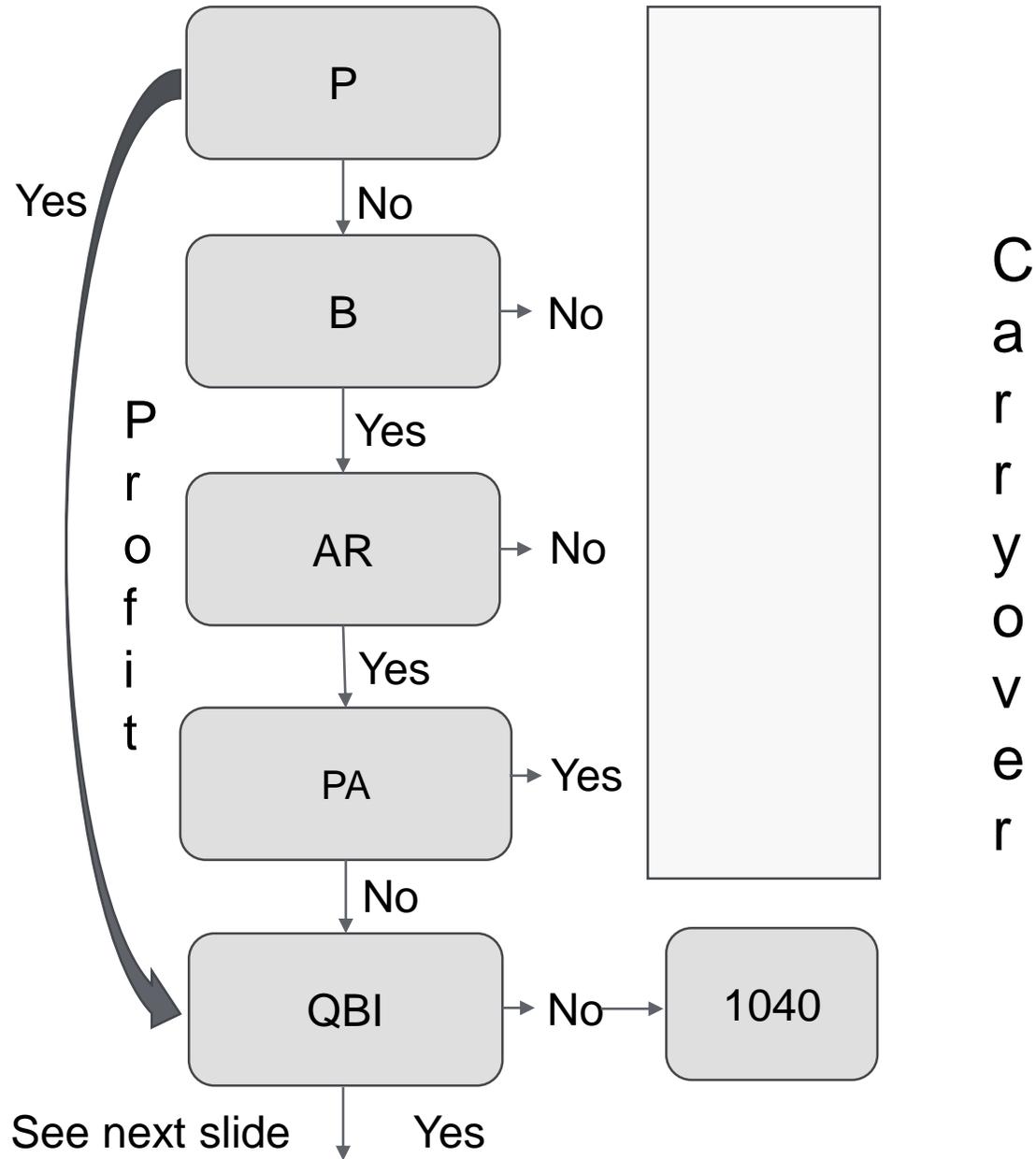
Netting QBI/QBL

Netting Income and Losses (QBI/QBL)

- Final regs – if net amount is a loss, net loss is carried forward
- No W-2 or basis amounts carry forward
- If net of all positive and negative QBI = positive, the loss must be allocated among all the businesses that produce QBI, in proportion
- Final regs – suspended losses before 1/1/18 are excluded (first-in-first-out)

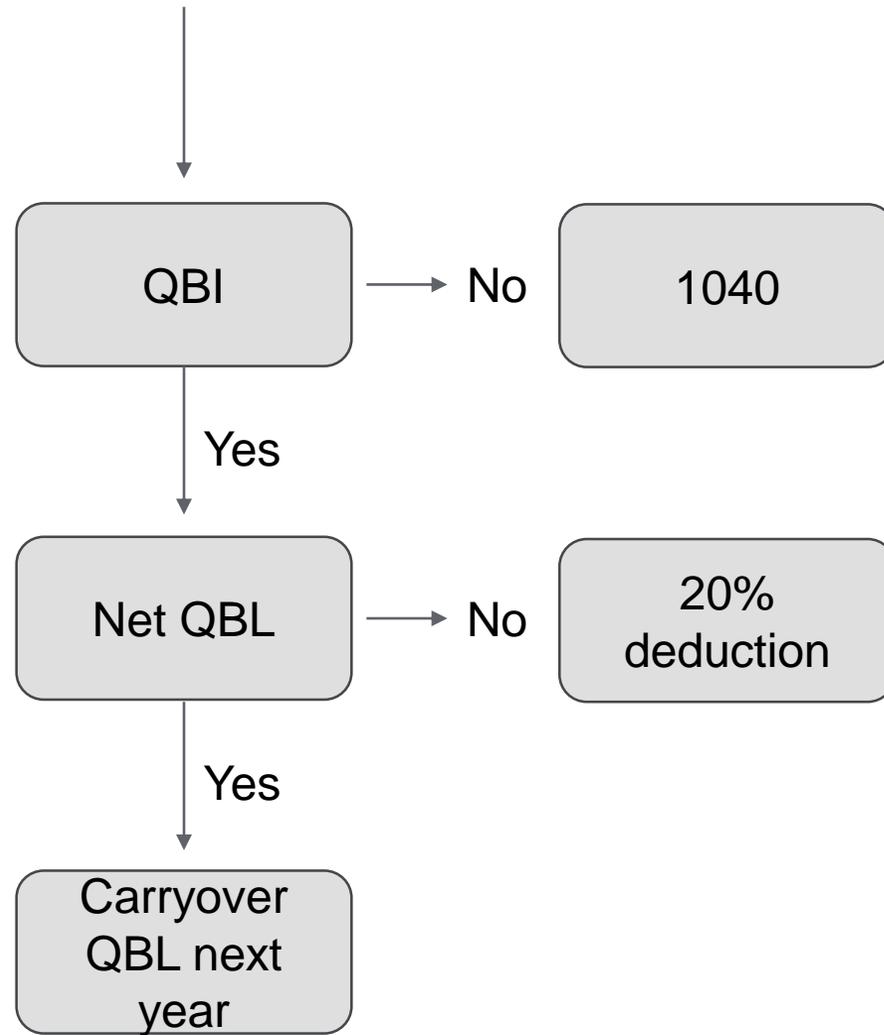
Loss Ordering Rules

- QBL
 - §1231 look-back
- Has to get on Form
- Run basis first



Cont.

Loss Ordering Rules, Cont.



NOT NOL

Aggregation



Elective Aggregation Overview

- Each business must rise to the level of a §162 trade or business
- Businesses have the same tax year
- None of the businesses are a SSTB
- Proposed regs – aggregation at owner level
- Final regs – aggregation at owner or entity level
- Because of final regs being late and because of complexity, you can amend a 2018 return only

Self-rentals (Combining)

Self-rentals

- A rental activity will be treated as a 162 trade or business if it is rented to a “**commonly controlled**” trade or business owned by the taxpayer
- Same owner(s) must own 50% or more of both property and business
- Attribution rules of 267 and 707

Combining Self-rentals

- SSTB
 - Required to combine
 - Rental is SSTB
- No SSTB
 - Can elect to combine
 - Combining allows rental income to be QBI

Rev. Proc. 2019-07

Rental real estate safe harbor

A green triangle graphic is located in the bottom right corner of the slide.

Rental Real Estate Activities as a T or B

- **Notice 2019-07** released concurrently with final regs
 - Notice of proposed safe harbor under which a rental real estate enterprise may be treated as a T or B solely for purposes of §199A if at least **250 hours** of service are performed each year, including
 - Services performed by owners, employees, contractors
 - Time spent on maintenance, repairs, collection of rent, paying expenses, services to tenant, efforts to rent the property

Rental Real Estate Activities as a T or B, Cont.

- Proposed safe harbor would require
 - Separate books and records and
 - Separate bank accounts for the rental real estate enterprise
 - Maintain contemporaneous records
- 

Net Capital Gain

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Net Capital Gain Defined for purposes of §199A

- Net capital gains
 - Capital gains
 - Qualified dividend
 - Net 1231 gain

Planning



Planning... 179 Expensing

P'Ship §179 Election		\$100,000	
YEAR 1			
Partner	Ptnr 1 50%		Ptnr 2 50%
	1040		1040
Income before §179 - 1040	(\$20,000)		\$150,000
K-1 §179 election	\$50,000		\$50,000
§179 Deduction	\$0		(\$50,000)
§179 Carryover	\$50,000		\$0
Reduced QBI	\$0		\$50,000

Cont.

Planning... 179 Expensing, Cont.

P'Ship sold asset		§179/§4797	
YEAR 2			
Partner	Ptnr 1 50%		Ptnr 2 50%
	1040		1040
Recap §179			
Table income (§4797)	\$0		\$50,000
QBI income (§4797)	\$0		\$50,000
§179 Carryover	\$0		N/A

Cont.

Planning...

Retirement

	IRA	SIMPLE
Deduction	\$10,000	\$10,000
QBI reduction	\$0	\$10,000

Summary

Contact Information

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