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Qualified Business Income Deduction

WHAT IT IS / WHAT IT MEANS TO YOU

Presented by:
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Eliezer Gross joined Wiss & Company, LLP in June 2019 as a Director in the tax department. Previously, Eliezer worked in the real estate tax practice at Ernst & Young and started his career at FTI Consulting. He has over thirteen years of experience in public accounting, primarily servicing clients in the real estate industry.

Eliezer has worked with clients in the family owned real estate businesses, fund managers, fund sponsors, Real Estate Investment Trusts (REITs), Tax Exempt Organizations, and Sovereign Wealth Funds. He has worked closely with clients by servicing their tax functions, such as tax compliance, reporting, structuring, planning, and controversy. Eliezer has also advised clients on their State and Local Tax (SALT) and International Tax needs. Eliezer has experience in modeling and reviewing complex K-1 allocations, as well as computing tax depreciation and amortization. He has represented clients before the IRS and state taxing authorities regarding audits, delinquent filings, and other tax controversy matters.

The QBI Deduction – Introduction

The **Qualified Business Income (QBI)** Deduction allows individuals and certain estates or trusts (Taxpayers) to take a 20% deduction of Qualified Business Income.

This reduces the maximum Federal income tax rate from 37% to 29.6% on QBI

The QBI Deduction

20%

of

- Qualified Business Income – must be a trade or business conducted in the US or Puerto Rico, plus
- Qualified REIT Dividends and Publicly Traded Partnerships (PTP) Income

TI

(Taxable Income limitation)

- Cannot exceed 20% of the Taxpayer's TI (Taxable Income Limitation), less:
  - → Standard/Itemized Deduction
  - → Net Capital Gains, including Qualified Dividends

The QBI Deduction is eligible on any qualifying trade or business conducted in the U.S. or Puerto Rico, plus any Qualified REIT dividends and PTP Income. The QBI Deduction cannot exceed 20% of the Taxpayer's TI reduced by subtractions per the above TI Limitation box.

Taxable Income Threshold Amounts - 2019 Tax Year

Single	Married Filing Jointly	Married Filing Separately
$160,700 - $210,000	**$321,400 - $421,400**	**$160,725 - $210,725**

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What is a Qualified Trade or Business?

Determining whether a trade or business is a qualified trade or business will depend on the type of business conducted. Income from certain trades or businesses classified as a Specified Service Trades or Businesses (SSTBs) are not eligible for the QBI Deduction if the Taxpayer's taxable income is above the TI limitation. There is a phased-in reduction if a Taxpayer's taxable income is within the TI Threshold. Examples of SSTBs are businesses in the legal, medical, accounting, or consulting fields. Note that Qualified REIT Dividends and PTP Income is eligible for the QBI Deduction regardless of the Taxpayer's taxable income. Taxpayers above the TI threshold are subject to another limitation for income from qualified trades or business as illustrated below.

Taxable Income above the TI threshold Calculation

20% of QBI

Lesser of

50% W-2 Wages **or** **25%** W-2 Wages + **2.5%** UBIA (Unadjusted Basis Immediately After Acquisition)

Greater of

Data Collection

All K-1s issued to an individual, estate, trust, or pass-through entity are required to provide the following QBI information:

QBI each trade or business	W-2 Wages each trade or business	UBIA each trade or business	REIT Dividends
PTP Income	SSTB Determination each trade or business	EIN each trade or business	

The determination of whether a business is a qualified trade or business, for purposes of the QBI deduction, is analyzed at the entity level, which adds complexity in the case of a tiered partnership structure.

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Aggregation

A way to maximize the QBI deduction is to aggregate QBI, W-2 Wages, UBIA from multiple trades or businesses as a single trade or business.

Taxpayers may need to gather additional information for aggregation:

- Ownership Structure
- Specific Business Activity
- Centralized Management Functions

While the QBI Deduction can be reduced or limited by the wages or basis limitations, one way to maximize it is to aggregate multiple trades or businesses that can qualify as one single trade or business. This strategy takes the wages or basis limitation from one business and combines it with a second business that has excess wages or basis.

Taxpayers may need additional information in order to determine whether these trades or businesses are eligible for aggregation. Eligible businesses must have common ownership or profits interest of at least 50%. In addition, the specific business activity or activities and performance of centralized management functions must be analyzed.

It is not too late for taxpayers to amend their 2018 returns for the sole purpose of aggregation, a one-time opportunity that is only allowed for 2018. Aggregation decisions cannot be changed in subsequent years unless facts or circumstances dictate or warrant that change.

Summary Of Key Considerations

- Determination of Qualified Trade or Business
- Entity selection
- Computation of W-2 Wages
- Computation of UBIA

Based on the current law, the QBI Deduction will not apply to taxable years beginning after 12/31/2025

The rules and tax reporting relating to the QBI Deduction are quite complex. Here are some ways we can help:

- Review of 2018 and/or 2019 tax returns. If applicable, the preparation of amended returns in order to claim the QBI deduction or a larger QBI deduction.
- Aggregation studies to provide a direct federal tax benefit
- Structuring opportunities to best utilize the W-2 Wages and UBIA limitations
- The optimal entity selection for your trade or business
- Separating an activity or activities from a trade or business that is an SSTB

Working with experts in this area, you'll be able to maximize your deduction and enjoy peace of mind that these matters are being handled properly.

Have further questions about QBI?

Please reach out at hello@wiss.com

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