

November 2018

To Our Clients and Friends:

The recent Tax Cuts and Jobs Act (TCJA) provided a new tax deduction for business income - the Section 199A deduction. The Treasury Department recently issued proposed regulations that provide some guidance on this new tax deduction. Here is a brief summary of these rules:

Taxpayers other than C Corporations may take a tax deduction of up to 20% of their Qualified Business Income (QBI) for tax years beginning after December 31, 2017. QBI is US-based net income from a sole proprietorship or pass-through entity. QBI does not include capital gain or loss, interest income, or dividends.

There are several limitations on the 199A deduction for “high-income” taxpayers. If your taxable income is greater than \$315,000 (married filing jointly) or \$157,000 (single, married filing separately, head of household), your deduction may be limited by two rules.

The first limitation is for high-income taxpayers in Specified Service Trades or Businesses (SSTBs). The service businesses subject to this limitation include: Health Services (doctors, pharmacists, dentists, and nurses); Legal (lawyers, paralegals; and arbitrators); Accounting; Performing Artists; Consulting (providing advice and counsel to clients); Financial Services (managing wealth, retirement planning, or raising capital); Brokerage Services (stock brokers or securities services – does not include real estate or insurance brokers); Investment Management, Trading or Dealing in Securities; and a catch-all for the IRS – The Principal Asset of the Business is the Reputation or Skill of the Employees or Owners.

The second limitation is based on the W-2 wages or basis of assets of businesses owned by high-income taxpayers. This limitation provides that the 199A deduction cannot exceed the greater of: 50% of the W-2 wages of the business that are allocated to QBI; or 25% of the W-2 wages + 2.5% of the unadjusted basis of all assets held by the business at the end of the year.

For people with multiple businesses, the proposed regulations contain rules which allow taxpayers to elect to aggregate several businesses on their tax returns. This aggregation election may allow certain taxpayers to increase their 199A deduction.

The newly issued IRS proposed regulations that explain the 199A deduction are very complicated. Please contact me at 847-205-5479 or gene@thethinkers.com to discuss these provisions and to see if you may qualify for a new deduction.

Sincerely,



Gene Levin, CPA, JD
Tax Manager

