NTxEA Chapter of TxSEA
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Presented by
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"I have good news and bad news, but I can't remember the good news."

2

"I wasn't paying attention in the meeting. What did they say was about to hit the fan?"

3

"These are the regulations that were supposed to land on your desk, but since the last group of regulations crushed your desk, we don't have anywhere to put them."

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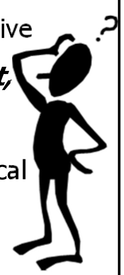
What is the Qualified Business Income (QBI) deduction?

A 20% deduction, subject to a massive tangle of ***limitations, terms of art, thresholds, and phase-ins and phase-outs,*** with ***a couple of*** critical definitions that could potentially jeopardize the whole thing!



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Definitions:

- QBIA: Qualified Business Income Amount
- QBI: Qualified Business Income
- QBID: Qualified Business Deduction
- TA: Threshold Amount
- SSTB: Specified **Service** Trade/Business
- Non-specified: **Service** Trade/Business
- AOF: All other Filers
- TTI: Tentative Taxable Income
- TI: Taxable Income
- NCG: Net Capital Gains

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Who qualifies for the QBI deduction?

- Sole proprietorships
- S corporations and partnerships
- Stand-alone rental properties reported on Schedule E
- Trusts and estates that own an interest in a flow-through business

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A.	**Use if taxable income is less than the threshold amounts: $315,000 (MFJ) or $157,500 All Others**					
B.	Usable by all business filers, including the specified service groups.					
C.	Business wages or qualified property are not required.					
						Deductible Amount
Business name of entity (One WS for each Entity):		Operations Superintendent				
Qualified Business Income or (loss)	$ 223,000		X	20%	(maybe negative)	$44,600

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Domestic

	With 20%
Total Income	$223,350
Adjustments	($10,948)
AGI	$212,402
Deductions	($24,000)
Preliminary Taxable Income	$188,402
199A 20% deduction	($44,600)
Taxable Income	$143,802
Income Tax	$23,515

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Non-Domestic

	W/O 20%
Total Income	$223,350
Adjustments	($10,948)
AGI	$212,402
Deductions	($24,000)
Preliminary Taxable Income	$188,402
199A 20% deduction	$0
Taxable Income	$188,402
Income Tax	$33,327

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Tax Cost:

	With 20%	W/O 20%
Total Income	$223,350	$223,350
Adjustments	($10,948)	($10,948)
AGI	$212,402	$212,402
Deductions	($24,000)	($24,000)
Preliminary Taxable Income	$188,402	$188,402
199A 20% deduction	($44,600)	$0
Taxable Income	$143,802	$188,402
Income Tax	$23,515	$33,795
Tax Cost		$10,280

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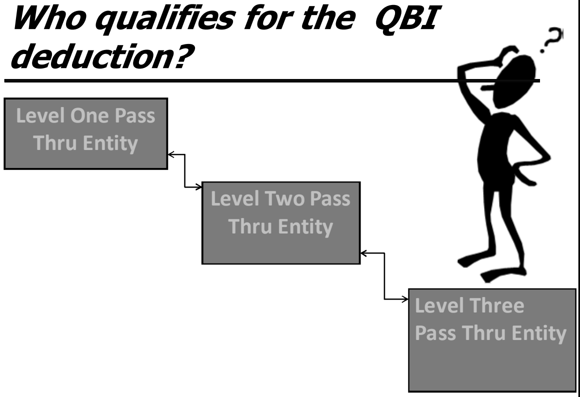
Who qualifies for the QBI deduction?



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Aggregation under Section 199A:

Requirements:

- ❖Same person or group of persons, directly or indirectly, own 50% or more of each business to be aggregated
- ❖"control test" is met for the "majority" of the tax year
- ❖businesses share the same tax year
- ❖None of the businesses may be SSTB -

AND,

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Aggregation under Section 199A:

Requirements:

- ❖Aggregated businesses must satisfy two of the following three factors:
  - ❖ Provide products or services that are the same or customarily offered together;
  - ❖ Share facilities or significant centralized business elements (Accounting., HR, IT, Legal, etc.)
  - ❖ Businesses are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group

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What is Combined Qualified Business Income (QBI)?

As defined in Section 199A(c):

- Å ordinary income -- less ordinary deductions earned from a sole-proprietorship, S corporation, or partnership
- Å QBI does not include, however, any wages earned as an owner/employee in that company
- Å Beginning in 2018, two people could doing the exact same activity -- one as an independent contractor and one as an employee -- with the self-employment income of the former being considered QBI (and thus eligible for a 20% deduction), while the wages earned by the latter would not be eligible for the 20% deduction

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What is ***NOT*** Combined Qualified Business Income (QBI)?

- Short-term capital gain or loss;
- Long-term capital gain or loss;
- Dividend income; or,
- Interest income
- Wages to the individual
- Guaranteed payments from the business
- Income that's not "effectively connected with the conduct of a U.S. trade or business"

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What is ***NOT*** Combined Qualified Business Income (QBI)?

- Specified Service Trade or Business – "Catch All":
- *"…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."*

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What is ***NOT*** Combined Qualified Business Income (QBI)?

- **Fees, compensation, or other income for:**
  - ***endorsing* products or services**
  - **use of an individual's 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.**

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Tax Planning Strategy

❖"Cracking and Packing" – splitting primary business into multiple entities to escape the limitations on Specified Service Trade/Business

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Rental as Qualified Business Income

- What we know: clearly, the 20% deduction is intended to apply to rental income
- What we *didn't* know:
  - The term "trade or business" was ***not*** well defined by tax law
  - Since there are a number of different interpretations of what constitutes a trade or business based on different Sections of the Code, which should we apply?
    - Code Sec. § 162 Trade or Business Expenses (highest standard)
    - Code Sec. § 1202 Partial Exclusion for Gain/Small business Stock
    - Code Sec. § 1244 Small business Stock Loss Write Off
    - Code Sec. § 1411(c)(2) Trades & businesses which NII tax applies

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What is Qualified Business Income Deduction (QBID)?

1. THE SUM OF:
   - The LESSER OF:
     - 20% of the taxpayer's "qualified business income" ***OR***
     - THE GREATER OF:
       - 50% of the W-2 wages with respect to the business, or
       - 25% of the W-2 wages with respect to the business plus 2.5% of the unadjusted basis of all qualified property.
2. PLUS:
   - 20% of qualified REIT dividends
   - qualified publicly traded partnership income

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Computing the QBI Deduction

- **Facts:**
  - –Single taxpayer
  - –Attorney
  - –sole proprietor
  - –QBI = $100,000
  - –no other income

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Computing the QBI Deduction

- ❖Threshold Amount = $157,500 taxable income
- ❖QBI = $100,000
- ❖Apply 20% deduction = $20,000
- ❖If his taxable income =
- ❖$100,000 - $12,000 Standard Deduction = $88,000 TTI, less $20,000 = $68,000 actual TI

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Computing the QBI Deduction

A.	**Use if taxable income is less than the threshold amounts: $315,000 (MFJ) or $157,500 All Others**				
B.	Usable by all business filers, including the specified service groups.				
C.	Business wages or qualified property are not required.				
					Deductible Amount
Business name of entity (One WS for each Entity):	Attorney @ Law				
Qualified Business Income or (loss)	$100,000	X	20%	(maybe negative)	$20,000

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Computing the Tax Liability

Total Income	**$ 100,000**
Adjustments (SE Tax)	$ (7,650)
AGI	$ 92,350
Deductions (Standard)	$ (12,000)
Preliminary Taxable Income	$ 80,350
199A 20% deduction	$ (20,000)
Taxable Income	$ 60,350
Income Tax	$ 9,217

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Computing the QBI Deduction

- Facts:
  - –Married taxpayer, filing joint
  - –Attorney
  - –sole proprietor
  - –QBI = $100,000
  - –Spouse's W-2 income of $215,000

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Computing the QBI Deduction

- ❖Threshold Amount = $315,000 gross taxable income (TI)
- ❖QBI = $100,000
- ❖Apply 20% deduction = $20,000
- ❖If their taxable income =

  $315,000 - $24,000 Standard Deduction = $291,000 provisional TI, less $20,000 = $271,000 TI

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Computing the QBI Deduction

- Example: Dean is a 20% Owner of ABC, LLC
  - QBI = $1,500,000
  - W-2 wages (no Dean W-2) = $ 500,000
  - Unadjusted Property Basis = $1,000,000
  - MFJ Taxable income = $ 555,000

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Computing the QBI Deduction

- Dean & Spouse are entitled to a deduction equal to the LESSER OF:

	Total	Dean's Allocable Share (20%)	20% Deduction
QBI	$1,500,000	$300,000	$60,000

- OR

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Computing the QBI Deduction

- The GREATER OF:

	Total	Dean's Allocable Share (20%)	50% Limitation
W-2 Wages	$500,000	$100,000	$50,000

- OR:

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Computing the QBI Deduction

	Total	Dean's Allocable Share (20%)	25% Limitation	2.5% Limitation	Total
W-2 Wages	$500,000	$100,000	$25,000		$25,000
Unadjusted Property Basis	$1,000,000	$200,000		$5,000	$5,000
					$30,000

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Computing the QBI Deduction

1.		QBI of (Loss) Allocable Share	$300,000	X	20.0%	May be negative		$60,000
2.		Wages	$100,000	X	50.0%		$50,000	
3.		Wages & Property:						
	a.	Wages	$100,000	X	25.0%	$25,000		
	b.	Property	$200,000	X	2.5%	$5,000		
		Total Line 3				$30,000		
4.		Greater of Lines 2 or 3 - the Wage/Property Amount					$50,000	
5.		Deductible Amount = Lesser of Line 1 or 4						$50,000

Computing the QBI Deduction

- Thus, Dean is entitled to a deduction of the lesser of either:
  - $60,000, or

  the greater of:
  - $50,000, or
  - $30,000
  - Therefore, Dean's deduction = $50,000

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Additional Definitions:

Section 199A(b)(6)(A) "qualified property" =

- **Tangible property**
- **Used for production of QBI**

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Computing the QBI Deduction

Depreciable period?

- Starts date in service
- Ends the LATER of:
  - 10 years, or
  - Last day of last full year in asset's regular depreciation period

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Computing the QBI Deduction

Four Notes:

1. Section 199A(b)(2)(B)(ii) requires "immediately after acquisition."
2. Any asset that was fully depreciated prior to 2018, unless it was placed in service *after* 2008, will not count towards basis

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Computing the QBI Deduction

Four Notes:

3. Just as with W-2 wages, a shareholder or partner may only take into consideration for purposes of applying the limitation 2.5% *his / her allocable share*
4. A partner in a partnership must allocate their share of asset basis in the same manner in which they are allocated depreciation expense from the partnership.

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Computing the QBI Deduction

Q: What's the point of this second limitation, the one that allows for the 20% deduction up to 25% of the share of W-2 wages PLUS 2.5% of the share of the unadjusted basis of the property?

A: A prime example of how Capitol Hill makes the sausage

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Computing the QBI Deduction

- Under the House bill, rental income would have been taxed at a top rate of 25% - ***if ALL*** income was "passive"

- Under the Senate bill, no differentiation between "passive' & "non-passive" – but was capped @ 50% of each owner's share or W-2 wages of business!

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Computing the QBI Deduction

- Example: *Dean owns a 50% interest in commercial rental properties through an LLC. Dean's share of the rental income of the LLC is $1,500,000. The LLC pays no W-2 wages, rather, it pays a management fee to an S corporation Dean controls. The management company pays W-2 wages, but also breaks even, passing out no net income to Dean. Dean's share of the total unadjusted basis of the commercial rental property is $10,000,000.*

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Computing the QBI Deduction

- Result: *Dean is entitled to the LESSER OF:*
  - *20% of QBI of $1,500,000 ($300,000) or*
  - *2.5% of the unadjusted asset basis of $10,000,000 ($250,000).*
- *As a result, Dean grabs a **$250,000** deduction*

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Computing the QBI Deduction

- Example: *Dean owns a 100% interest in 20 commercial rental properties through 20 LLCs that pay no W-2 wages and an S-Corp that pays substantial W-2 wages. Why not group all of Dean’s business and rentals together?*

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Computing the QBI Deduction

So the ACT is great for Dean and his

BIG landlord buddies, what about

smaller landlords?

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Computing the QBI Deduction

Example: Dean earns $150,000 from his small SSTB business LLC, but the business pays, only $10,000 of wages and has no significant property.

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Computing the QBI Deduction

Computation:

- LESSER OF:
- QBI of $150,000 * 20% = $30,000, or
- 50% of W-2 wages of $10,000, or $5,000

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Computing the QBI Deduction

Section 199A(b)(3)(A) states:

IF TAXABLE INCOME =/< $315,000, then ignore the W-2 limitation!

But it phases out between $315,000 and $415,000 – Therefore deduction = $30,000

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Computing the QBI Deduction

Example: Dean earns $200,000 from his S-Corp that paid $30,000 in wages, has no qualified property. Spouse Bonnie, earns $50,000 in wages and they jointly have $20,000 interest income; total income = $270,000.

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Computing the QBI Deduction

Computation:

LESSER OF:

1. QBI of $200,000 * 20%, or $40,000, or
2. GREATER of:
   1. 50% of W-2 wages of $30,000, or $15,000, or
   2. 25% of $30,000 plus 2.5% of $0, or $7,500

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Computing the QBI Deduction

OK, but what if the taxable income is between $315,000 and $415,000?

How is that computed?

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STEP ONE: What would Dean's deduction have been if his taxable income was less than $315,000?

Determined by taking the LESSER OF:

- 20% of QBI of $300,000, or $60,000, or
- the GREATER OF:
  - 50% of W-2 wages of $40,000, or $20,000, or
  - 25% of $W-2 wages of $40,000 + 2.5% of basis of property of $0, or $10,000

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STEP TWO:

W-2 limit doesn't apply on taxable income <$315,000 = $60,000 deduction

W-2 limit does apply on taxable income <$315,000 = GREATER OF:

1. 50% of $40,000 or $20,000, or
2. 25% of $40,000 plus 2.5% of $0, or $10,000.

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STEP Three:

Dean gets a TOTAL RANGE of $100,000 of taxable income that the $40,000 benefit that should be reduced based on *how far **Dean** is into that $100,000 range*

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STEP Three:

Taxable Income	$375,000
Less: Threshold	($315,000)
= Excess Taxable	$60,000
Excess Taxable	$60,000
÷ Phase in Range	$100,000
= % Benefit	60.0%

FLASH: NOT ALL BUSINESSES ARE ELIGIBLE FOR THE 20% DEDUCTION.

Section 199A(d)(1) makes clear that there are two "trades or businesses" that are not eligible for the 20% of QBI deduction:

1. Anyone who is in the business of being an employee (yes, being an employee is considered being in a business), and
2. Any *"specified service trade or business."*

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NOT ALL BUSINESSES ARE ELIGIBLE FOR THE 20% DEDUCTION.

Then, Section 199A(d)(2)(A) defines a "specified trade or business" in reference to Section 1202(e)(3)(A), which includes the following:

"…any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees."

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NOT ALL BUSINESSES ARE ELIGIBLE FOR THE 20% DEDUCTION.

Section 199A modifies the definition of "specified service businesses" found in Section 1202 in a couple of important ways:

1. It removes architects and engineers
2. It ignores Sections 1202(e)(3)(B) of additional disqualifying businesses: banking, insurance, financing, leasing, investing. Farming, any giving rise to depletion, any operation of hotel, motel or restaurant

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NOT ALL BUSINESSES ARE ELIGIBLE FOR THE 20% DEDUCTION.

Therefore: whether a business is a "specified service business" is going to be *critical* under the new law; after all, if you are a specified service business (SSTB), you get *NO* deduction. If you're not an SSTB, take 20% off the top!

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NOT ALL BUSINESSES ARE ELIGIBLE FOR THE 20% DEDUCTION.

Remember:

"…any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees."

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Side Bar:

Section 1202 gives the holder of "qualified small business stock" (QSB) a ***100%*** exclusion from gain upon the sale of such stock that has been held for longer than five years. Part of the requirements for qualifying as QSB stock is that the corporation can't be engaged in one of the service businesses described previously in Sections 1202(e)(3)(A) and (e)(3)(B).

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Side Bar:

Beginning September 2010, Section 1202 gives the holder of "qualified small business stock" a 100% exclusion from gain upon the sale of such stock that has been held for longer than five years.

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Example 1.a.

- MFJ
- TTI = $325,000
- QBI = $355,000
- Wages = $100,000
- Property = $-0-
- Non-Specified Service Business

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ONLY for non-specified Businesses

A.	Business Wages and Property Not Required, but may Increase the Deduction:
B.	Use If Taxable Income Is These Amounts:
Status	Taxable Income Range -
MFJ	$315,000 - $415,000
AOF	$157,500 - $207,500
	If Lower, Use this Worksheet, If Higher, Use Worksheet 4

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ONLY for non-specified Businesses

	Business name of entity (One WS per Entity):				SDS Enterprises, LLC		
1.	Qualified Business Income loss)	$355,000	X	20%	(may be negative)		$71,000
2.	Wages $	$100,000	X 50%	....	....	$50,000	
3.	Wages and Property:						
	a. Wages		X 25%	....	......	$25,000	
	b. Unadjusted Prop.	$0.00	X	2.5%		$ 0	
	Total Line 3					$25,000	
4.	Greater of Lines 2 or 3 - The wage/property amount					$50,000	
5.	Is Line 4 less than Line 1?						
	If Yes - Go to Line 6 (reduction of Line 1 required)						
	If No - The deductible amount is Line 1						$ 0
							(To Form 9000)

ONLY for non-specified Businesses

6.	Line 1 less Line 4 - The excess amount ...	$21,000	
7.	Taxable Income	$325,000	
8.	Enter: $315,000 (MFJ) or $157,500 (AOF) .	$315,000	
9.	Difference: Line 7 less Line 8	$10,000	
10.	Ratio: Line 9 divided by $100,000 (MFJ) or $50,000 (AOF)		10%
11.	Reduction amount: Line 6 x Line 10		$2,100
12.	The deductible amount - Line 1 less Line 11		$68,900
			(To Form 9000)

Example 1.b.

- Larry has $100,000 of QBI. In addition, Larry has:
  - $200,000 of long-term capital gains,
  - $20,000 of wages, and
  - $50,000 of itemized deductions, for taxable income of
  - $270,000. Larry's deduction is limited to the lesser of:
- 20% of QBI of $100,000, or $20,000, or
- 20% of ($270,000-$200,000), or $14,000.

Example 2.

Larry is partner in a law firm. Larry is married, and has taxable income of $800,000. Larry 's share of the income of the law firm is $700,000, his share of the W-2 wages of the law firm is $100,000, and his share of the unadjusted basis of the assets of the business is $20,000. Larry is entitled to no deduction, because a law firm IS a specified service business and Larry's taxable income exceeds $415,000, meaning he is completely phased-out of any possible deduction.

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Example 2.

Same as in Example 1, except Larry's taxable income is $300,000, his share of the income of the law firm LLC is $200,000, his share of the W-2 wages is $60,000, and his share of the assets of the LLC is $40,000. Even though Larry is an attorney, he may take the deduction because his taxable income is below $315,000, the start of the phase-in threshold. As a result, Larry can take a deduction of 20% of $200,000, or $40,000.

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Example 2.

	Section 199A Component: Deductible Amount Per Business					
	The Quickest - Only for Below Threshold Taxable Income					
A.	Use if taxable income is <u>less than</u> the threshold amounts: $315,000 (MFJ) or $157,500 All Others					
B.	Usable by all business filers, including the specified service groups.					
C.	Business wages or qualified property are not required.					
						Deductible Amount
	Business name of entity (One WS for each Entity):			Larry Lawyer LLC		
	Qualified Business Income or (loss)	$200,000	X	20%	(maybe negative)	$40,000
						(To Form 9000)

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Example 3.

- *Dean and Bonnie are married. Dean earns $300,000 from an S corporation. Dean's share of the W-2 wages paid by the S corporation is $40,000. Dean's share of the unadjusted basis of qualified property held by the S corporation is $0. Bonnie earns wages from her job, so that taxable income for Dean and Bonnie in 2018 is $375,000. Dean is an attorney, so his $300,000 of income from his S corporation is from a disqualified SSTB."*

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Example 3.

	Section 199A Component: Deductible Amount Per Business
	Worksheet 3
	Use <u>only</u> for Specified Service Businesses
A.	**Business wages and property are not required, but may increase the deduction.**
B.	**Use if taxable income is between the amounts below:**
Status	**Taxable Income Range - If lower, use worksheet 1, If higher, no deduction allowed.**
MFJ	**$315,000 - $415,000**
AOF	**$157,500 - $157.500**

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Example 3.

	Determining Reduced Income, Wage and Property Amounts:		
1.	Taxable Income..	$375,000	
2.	Enter $315,000 (MFJ) or $157,500 (AOF)	$315,000	
3.	Difference: Line 1 less Line 2	$60,000	
4.	Ratio: Line 3 divided by $100,000 (MFJ) or $50,000 (AOF)	60.0%	
5.	Applicable Percentage: 100% less Line 4 = ...		40.0%

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Example 3.

	Reductions Due to Applicable Percentage				
6.	Qualified business income or (loss)	$300,000	x Line 5 =	$120,000	
7.	Wages	$40,000	x Line 5 =	$16,000	
8.	Unadjusted Property	$0	x Line 5 =	$0	
9.	Qualified Business Income or (loss): Line 6 x		20%	(may be negative)	$24,000

Example 3.

	Reductions Due to Applicable Percentage					
10.	Wages: Line 7 x			50%	$20,000	
11.	Wages and Property:					
	a. Wages: Line 7 x	25%	....	$10,000		
	b. Unadjusted Property: Line	8 x	2.50%	$0		
	c. Total Line 11			$0		
12.	Greater of Line 10 or Line 11c - The Wage/Property Amount			$10,000	$20,000	
13.	Is Line 12 less than Line 9?					
	If Yes - Go to Line 14 - (reduction of Line 9 Required)					(To Form 9000)
	If No - The deduction amount is Line 9					$0

Example 3.

14.	**Line 9 Less Line 12 = The excess amount ....**	**$4,000**	
15.	Enter ratio from Line 4	60%	
16.	Reduction amount: Line 14 x Line 15		$2,400
17.	The deductible amount - Line 9 less Line 16		$21,600
			(To Form 9000)

NCPE Form 9000: The Qualified Business Income Deduction

- Combine all qualified business income and losses:
- ∗ If positive - Proceed with worksheets
- ∗ If negative - STOP - The loss will offset next years income

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NCPE Form 9000: The Qualified Business Income Deduction

1.	**a.**	**Sum Of deductions for each business per all Worksheets below**	**$62,100**
	b.	Aggregate amount of qualifying REIT Dividends $ -0- Plus qualified Publicly Traded Partnerships $ -0- x 20%	$0
	c.	Combined Qualified Business Income Amount (a. + b.)	$62,100
2.	a.	Taxable Income	$320,000
	b.	Subtract Net Capital Gains	($5,000)
	c.	Subtract Qualified Cooperative Dividends	$0
	d.	Taxable Income as reduced	$315,000
	e.	20% of Line d.	$63,000

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NCPE Form 9000: The Qualified Business Income Deduction

4.	**a.**	**Qualified Cooperative Dividends**	**$0**
	b.	Taxable income reduced by net capital gains (2.a. - 2.b.)	$315,000
	c.	Lesser of 4.a. or 4.b.	$0
5.		Qualified Business Income Deduction* (Line 3 + 4.c.)	$62,100
	*	Limited to taxable income reduced by net capital gains.	

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NCPE Form 9000: The Qualified Business Income Deduction

For Line 1.a. above - Enter the QBIA from each entity's worksheet below:		
Entity #1	$ 28,000	
Entity #2	$ 700	
Entity #3	$15,000	
Entity #4	$ 5,000	
Entity #5	$ 6,000	
Entity #6	$ 7,400	
Total of above Entities		$ 62,100

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What about K-1's?

- This is addressed in Prop. Reg. §1.199A-6.
-
- IRS says QBI, wages and basis of qualified property are determined at the entity level and reported on the K-1
- Individuals then make the calculations on their 1040.

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What about K-1's?

On Line 20 – Other Information:

Z Section 199A income
AA Section 199A W-2 wages
AB Section 199A unadjusted basis
AC Section 199A REIT dividends
AD Section 199A PTP income
AE Excess taxable income
AF Excess business interest income

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WHERE DO WE TAKE THE 20% DEDUCTION?

- NOT on 1040 Page 1 -- as a deduction in computing adjusted gross income –
- Nor will it be an "itemized deduction" deducted on Schedule A and only available to those who itemize.
- Per the 'Draft' 2018 1040, it will be on a line just below the TTI

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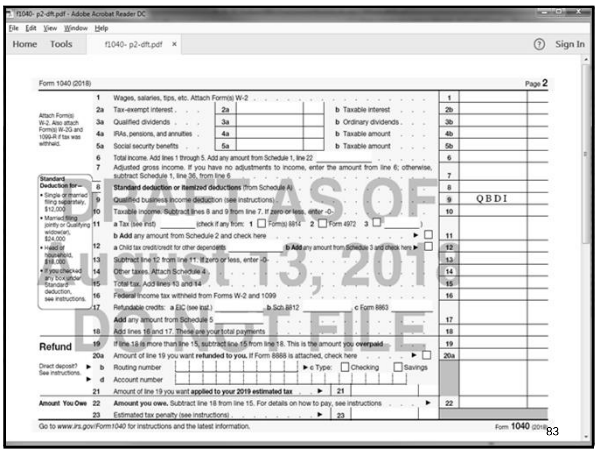

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Form 1040 (2018) Page 2

DRAFT AS OF August 13, 2018 DO NOT FILE

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	1	Wages, salaries, tips, etc. Attach Form(s) W-2	1
	2a	Tax-exempt interest . . . 2a · b Taxable interest	2b
	3a	Qualified dividends . . . 3a · b Ordinary dividends	3b
	4a	IRAs, pensions, and annuities . 4a · b Taxable amount	4b
	5a	Social security benefits . . 5a · b Taxable amount	5b
	6	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6
	7	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7
Standard Deduction for— • Single or married filing separately, $12,000 • Married filing jointly or Qualifying widow(er), $24,000 • Head of household, $18,000 • If you checked any box under Standard deduction, see instructions.	8	**Standard deduction or itemized deductions** (from Schedule A)	8
	9	Qualified business income deduction (see instructions)	9 QBDI
	10	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10
	11	a Tax (see inst) (check if any from: 1 ☐ Form(s) 8814 2 ☐ Form 4972 3 ☐) b **Add** any amount from Schedule 2 and check here ▶ ☐	11
	12	a Child tax credit/credit for other dependents b **Add** any amount from Schedule 3 and check here ▶ ☐	12
	13	Subtract line 12 from line 11. If zero or less, enter -0-	13
	14	Other taxes. Attach Schedule 4	14
	15	Total tax. Add lines 13 and 14	15
	16	Federal income tax withheld from Forms W-2 and 1099	16
	17	Refundable credits: a EIC (see inst.) b Sch 8812 c Form 8863 **Add** any amount from Schedule 5	17
	18	Add lines 16 and 17. These are your total payments	18
Refund	19	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you **overpaid**	19
	20a	Amount of line 19 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	20a
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings	
	▶ d	Account number	
	21	Amount of line 19 you want **applied to your 2019 estimated tax** ▶ 21	
Amount You Owe	22	**Amount you owe.** Subtract line 18 from line 15. For details on how to pay, see instructions ▶	22
	23	Estimated tax penalty (see instructions) ▶ 23	

Go to *www.irs.gov/Form1040* for instructions and the latest information. Form **1040** (2018)

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OTHER ISSUES

- AMT
- Self-employment
- Losses instead of profits
- NOLs
- Overall taxable income

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OTHER ISSUES

- AMT -
  - Section 199A(f)(2) provides that when computing alternative minimum taxable income, you determine qualified business income" without taking into consideration any AMT adjustments or preferences as provided in Sections 55 -59

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OTHER ISSUES

- Self-employment:
  - Can’t see any effect as deduction is on 1040 page 2, as a deduction available to all taxpayers, similar to the standard deduction or personal exemptions

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OTHER ISSUES

- Losses instead of profits:
  - If a loss in Year 1 from a QBI-type activity, *even if that loss is used in computing taxable income in Year 1* -- when get to Year 2, that QBI loss "carries over" and reduces Year 2 QBI *solely for purposes of computing the 20% of QBI deduction*

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OTHER ISSUES

- NOLs
  - Not affected as Section 172(d) has been amended to provide that a net operating loss does NOT include the Section 199A deduction

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OTHER ISSUES

- Overall taxable income
  - the deduction is equal to the LESSER OF:
    - the combined "qualified business income" of the taxpayer, or
    - 20% of the excess of taxable income minus the sum of any net capital gain

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"I need another computer."

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Questions?

Thank You!

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EXHIBT I

Definitions of Specific Disqualified Fields

The regulations attempt to leverage off existing regulations under Section 448 and provide further interpretation of the disqualified fields. Let's see who is disqualified and who is not in each field:

- Health:
  - Disqualified: Doctors, pharmacists, nurses, dentists, veterinarians, physical therapists, psychologists, and other similar healthcare professionals who provide services directly to a patient.
  -
  - Not disqualified: People who provide services that may improve the health of the recipient, such as the operator of a health club or spa, or the research, testing, and sale of pharmaceuticals or medical devices.
- Law:
  - Disqualified: Lawyers, paralegals, legal arbitrators, and mediators.
  - Not disqualified: Those that provide services not unique to law, like printing, stenography, or delivery services.

- Accounting:
  - Disqualified: Accountants, enrolled agents, return preparers, financial auditors, bookkeepers, and similar. ***You do not need to be a licensed CPA to fall victim to this rule.***
  - Not disqualified: No one, from what I can tell.

- Actuarial Science:
  - Disqualified: Actuaries and similar professionals.
  - Not disqualified: Analysts, economists, mathematicians, and statisticians not engaged in analyzing or assessing the financial costs of risk or uncertainty of events.

- Performing Arts:
  - Disqualified: Actors, singers, musicians, entertainers, directors, and similar professionals who provide services that lead to the creation of performing arts.
  - Not disqualified: Those who broadcast or disseminate video or audio to the public, and those who maintain or operate equipment or facilities used in the performing arts.

- Consulting:

EXHIBT I

- Disqualified: Those who provide professional advice and counsel to clients to assist in achieving goals and solving problems, including government lobbyists.
- Not disqualified: Salespeople and those who provide training or educational courses. This category also does not include any services ancillary to the sale of goods in a business that is NOT a SSTB (such as a building contractor) as long as there is ***no separate fee for the consulting services***.

- Athletics:
  - Disqualified: Athletes, coaches, team managers.
  - Not disqualified: Broadcasters or those who maintain or operate equipment used in an athletic event.

- Financial Services:
  - Disqualified: Those who provide financial services to clients including managing wealth, developing retirement or transition plans, M&A advisory, valuation work. In other words, financial advisors, investment bankers, wealth planners, and retirement advisors.
  - Not disqualified: Banking!

- Brokerage Services:
  - Disqualified: A broker who arranges transactions between a buyer and a seller with ***respect to securities;*** i.e., a stockbroker.
  - Not disqualified: Owing to the ***italics*** above, a real estate broker is OK!

- Investment Management
  - Disqualified: Those who receive fees for providing investing, asset management, or investment management services.
  - Not disqualified: ***REAL ESTATE MANAGEMENT!***

- Trading:
  - Disqualified: Those who trade in securities, commodities or partnership interests.
  - Not disqualified: A farmer or manufacturer who engages in hedging transactions as part of their trade or business.