2023
The Section 199A Pass-Through Deduction

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Understanding the Tax Cuts and Jobs Act (TCJA) of 2017

- The TCJA, signed into law in 2017, impacts tax planning and income tax liability.
- It's especially important for business owners of pass-through trades or businesses.
- This course focuses on the pass-through deduction authorized under § 199A of the TCJA.

Key Aspects of the Pass-Through Deduction

- Section 1: Calculating the deduction for business owners with income below the threshold.
- Section 2: Calculating the deduction for business owners with income above the threshold.
- Section 3: Calculating the deduction for business owners with income above the threshold in specified service trades or businesses (SSTBs).
- The final chapter explores SSTBs and identifies exceptions within these categories.

Course Learning Objectives

- Upon completion of this course, you should be able to:
- Explain how to compute the § 199A deduction for pass-through business owners whose taxable income is:
- Not in excess of the applicable threshold,
- In excess of the applicable threshold but not in excess of the sum of the threshold and phase-in range, and
- In excess of the sum of the applicable threshold and phase-in range;

Course Learning Objectives (cont.)

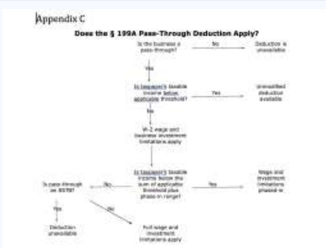
- Determine W-2 wages and the unadjusted basis of qualified property immediately after its acquisition (UBIA);
- Define qualified business income (QBI), qualified REIT dividends and qualified publicly traded partnership (PTP) income and the special rules applicable to them;
- Recognize the aggregation rules applicable to the § 199A deduction; and
- Identify the trades or businesses considered specified service trades or businesses (SSTBs) that may be ineligible for the pass-through deduction.

Chapter 1 – Business Owners' Taxable Income Below Threshold

An examination of the pass-through deduction authorized under tax law titled "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018," better known as the Tax Cuts and Jobs Act of 2017 (TCJA), for pass-through business owners whose taxable income does not exceed a statutorily-set threshold. It is a potentially substantial deduction that affects business owners of sole proprietorships, partnerships (and LLCs taxed as partnerships) and S corporations as well as trusts and estates engaged in domestic trades or businesses.

Chapter 1 Learning Objectives

- Recognize a pass-through trade or business;
- Calculate the pass-through deduction for a qualified trade or business owner whose taxable income does not exceed the applicable threshold;
- Define the terms “qualified trade or business” and “qualified business income,” for purposes of the pass-through deduction; and
- Apply the carryover rules applicable to pass-through business owners who have negative combined qualified business income or qualified REIT dividends/PTP income.



- **Nature of the 20 percent Deduction for Qualified Business Income** The deduction for pass-through business owners whose taxable income does not exceed the applicable threshold is equal to the lesser of the combined QBI amount (comprised of 20 percent of QBI plus 20 percent of qualified REIT dividends/PTP income), and 20 percent of the taxpayer’s taxable income reduced by the taxpayer’s net capital gain.
- **Deduction Eligibility** Pass-through deduction eligibility is limited to taxpayers who operate a business as a sole proprietor or under a pass-through entity.

1. **Pass-Through Business** Pass-through businesses are those businesses organized as a sole proprietorship, a partnership, a limited liability company (LLC) taxed as a partnership or an S corporation.
   a. A sole proprietorship;
   b. A partnership;
   c. A limited liability company (LLC) taxed as a partnership; or
   d. An S corporation.

- **Carryover Rules** Eligibility for any pass-through deduction is unaffected by the taxpayer's election to itemize deductions or take the standard deduction.
- **Carryover Rules When Total QBI Amount is Negative** If the total qualified business income (QBI) amount is less than zero, the portion of the § 199A deduction related to QBI is zero for the taxable year, and the negative total QBI amount is treated as negative QBI from a separate trade or business in succeeding taxable years.

- **Carryover Rules When Qualified REIT/PTP Income Amount is Negative** If the combined amount of qualified REIT dividends/qualified PTP income is less than zero, the portion of the individual's § 199A deduction related to qualified REIT dividends/qualified PTP income is zero for the taxable year, and the negative combined amount is carried forward and used to offset the combined amount of qualified REIT dividends/qualified PTP income in succeeding taxable years.

Computing the Deduction - Taxable Income Not Exceeding Threshold Amount

For business owners with taxable income for the taxable year that does not exceed the threshold amount and whose business is an eligible pass-through business, the § 199A pass-through deduction is determined by adding:

- 20 percent of the total QBI amount; and
- 20 percent of the combined amount of qualified REIT dividends and qualified PTP income.

That sum is then compared to 20 percent of the amount by which the individual's taxable income exceeds net capital gain (since capital gain is included in taxable income), and the lesser of these two amounts is the individual's § 199A deduction.

Computing the Deduction (cont.)

Thus, the § 199A pass-through deduction for a taxpayer whose taxable income does not exceed the applicable threshold amount is equal to the lesser of A or B, where:

- **A** is 20 percent of the combined qualified business income plus 20 percent of the total of qualified REIT dividends and qualified PTP income; and
- **B** is 20 percent of the taxpayer's taxable income less net capital gain

Example 1

Peter, an unmarried individual, owns and operates a computer repair shop as a sole proprietorship. He has no REIT or PTP interests. He has no capital gains or losses and, after allowable deductions not related to the business, his total taxable income for 2023 is $81,000. The business's QBI is $100,000, the net amount of its qualified items of income, gain, deduction, and loss.

Peter's § 199A deduction for 2023 is equal to $16,200, computed as the lesser of A and B where:

- **A** equals 20 percent of Peter's QBI from the business, and
- **B** equals 20 percent of Peter's total taxable income for the taxable year

Example 1 (cont.)

Accordingly, the deduction for Peter is the smaller of:

$100,000 x 20 percent = $20,000; or

$81,000 x 20 percent = $16,200.

Since B, i.e. $16,200, is the smaller number, that is his § 199A deduction.

Example 2

Peter's sister, Carol, also an unmarried individual, owns and operates a photocopy shop as a sole proprietorship. The business has qualified business income of $150,000 in 2023. Unlike her brother, Carol also has $7,000 in net capital gain for 2023 and, after allowable deductions not related to the business, has taxable income for 2023 of $94,000. Her taxable income minus net capital gain is $87,000 ($94,000 - $7,000 = $87,000). She owns no REIT or PTP interests.

Carol's § 199A deduction is equal to $17,400, computed as the lesser of A and B where:

A equals 20 percent of Carol's QBI from the business; and

B equals 20 percent of Carol's total taxable income minus net capital gain for the taxable year

Example 2 (cont.)

As we can see, Carol's § 199A deduction is the smaller of:

$150,000 x 20 percent = $30,000; or

($94,000 - $7,000) x 20 percent = $17,400

- **Threshold Amount** The threshold amount is an annually-adjusted, statutorily-defined taxable income amount that applies in varying amounts depending on the business owner's filing status.

Taxpayer's Filing Status	2022 Threshold Amount	2023 Threshold Amount	Phase-In Range
Married filing jointly	$340,100	$364,200	$100,000
Married filing separately	$170,050	$182,100	$50,000
Single & head of household filers	$170,050	$182,100	$50,000

1. **Qualified REIT Dividends** A qualified REIT dividend is a dividend from a REIT received during the taxable year that is neither a capital gain dividend nor qualified dividend income.
   a. Is not a capital gain dividend, as defined in § 857(b)(3), and
   b. Is not qualified dividend income, as defined in § 1(h)(11).

…and does not include any REIT dividend received with respect to any share of REIT stock:

1. That is held by the shareholder for 45 days or less during the 91-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend; or
2. To the extent that the shareholder is under an obligation to make related payments with respect to positions in substantially similar or related property.

- **Qualified Publicly Traded Partnership Income** A publicly traded partnership (PTP) is a partnership, the interests in which are either traded on an established securities market or readily tradable on a secondary market.
- **Qualified Business Income** Qualified business income (QBI) is the net amount of qualified items of income, gain, deduction, and loss with respect to a taxpayer's trade or business.
  - Section 751 Gain
  - Guaranteed Payments for the Use of Capital
  - Section 481 Adjustments

- **Previously Disallowed Losses** Previously disallowed losses or deductions in taxable years ending after December 31, 2017 that are subsequently allowed are normally taken into account for purposes of computing QBI, but such losses or deductions from taxable years ending before January 1, 2018, are not.
- **Net Operating Losses** A net operating loss is not considered with respect to a trade or business and, therefore, is not taken into account in computing QBI.

- **Qualified Items of Income, Gain, Deduction and Loss** When used with respect to income, gain, deduction and loss in connection with the § 199A pass-through deduction, "qualified" describes such items that are effectively connected with the taxpayer's trade or business conducted in the U.S., and the item is included in determining the taxpayer's income for the year.
  - The items are effectively connected with the taxpayer's trade or business conducted in the U.S., and
  - The gross income or gain is included, or the deduction or loss is allowed, in determining the taxpayer's income for the year.

a. **Qualified Items of Income, Gain, Deduction and Loss (cont.)**
Income, gain or loss derived from sources within the United States is considered to be effectively connected with the conduct of the trade or business within the United States if:
   i. The income, gain or loss is derived from assets that are –
      1. used in the conduct of the trade or business, or
      2. held for use in the conduct of the trade or business; or
   ii. The activities of the trade or business were a material factor in realizing the income, gain or loss (with due regard given to whether or not the asset or income, gain or loss was accounted through the trade or business).

1. **Qualified Items of Income, Gain, Deduction and Loss (cont.)**

The operational rules for calculating qualified business income are found at 26 CFR § 1.199A-3

When determining qualified business income for the purpose of calculating the allowable § 199A deduction, certain other deductions must be taken, including:

   a. The deductible portion of the tax on self-employment income;
   b. The self-employed health insurance deduction; and
   c. The deduction for contributions to qualified retirement plans.

- **Qualified Trade or Business** Income, gain or loss derived from sources within the United States is considered to be effectively connected with the conduct of the trade or business within the United States if derived from assets used in the conduct of the trade or business or held for use in the conduct of the trade or business, or the activities of the trade or business were a material factor in realizing the income, gain or loss (with due regard given to whether or not the asset or income, gain or loss was accounted through the trade or business).
   - A qualified trade or business, as the term is used with respect to the pass-through deduction, means any trade or business other than a specified service trade or business or the trade or business of performing services as an employee.

- **Aggregation** An individual or RPE may aggregate multiple trades or businesses in accordance with IRS rules.
  - Aggregation Rules
  - Operating Rules
  - Individuals
  - Relevant Pass-Through Entities
  - Reporting and Consistency Requirements
  - Failure to Disclose
  - Accuracy-Related Penalty on Underpayments


8995
Qualified Business Income Deduction
Simplified Computation

Chapter 2 – When Taxable Income Exceeds the Threshold

Considering the pass-through deduction authorized under the TCJA and its calculation for taxpayers whose taxable income exceeds the applicable threshold amount but is not within the phase-in range. In other words, the taxpayers’ taxable income is greater than the applicable threshold plus the phase-in range.

Chapter 2 Learning Objectives

- Recognize a pass-through trade or business;
- Calculate the pass-through deduction for a qualified trade or business owner whose taxable income does not exceed the applicable threshold;
- Define the terms "qualified trade or business" and "qualified business income," for purposes of the pass-through deduction; and
- Apply the carryover rules applicable to pass-through business owners who have negative combined qualified business income or qualified REIT dividends/PTP income.

- **Taxable Income Above Threshold Amount** The 2023 threshold amount level is $364,200 for taxpayers whose status is married filing jointly, and $182,100 for all others.
- **Pass-Through Deduction when Taxable Income Exceeds the Threshold** If the taxpayer's business is a specified service trade or business (SSTB), the business owner would qualify for an exception to the disqualification of SSTBs and could be eligible for the pass-through deduction (if otherwise eligible) if the taxpayer has taxable income in excess of the applicable threshold amount but below the sum of the applicable threshold amount plus the phase-in range.
  - If the individual's taxable income exceeds the sum of the threshold amount plus the phase-in range, a specified service trade or business would not qualify for the pass-through deduction since it would not be considered a qualified trade or business and ineligible for the exception to disqualification.

- **Pass-Through Deduction when Taxable Income Exceeds the Threshold (cont.)** Although non-SSTB pass-through businesses whose owners' taxable incomes exceed the threshold are not subject to the SSTB exclusion rules, they are, however, subject to a wage or wage/capital limit that may reduce or exclude their QBI based on the amount of W-2 wages paid and/or the amount of investment made in tangible property connected with the business.

1. **QBI component** Under the netting and carryover rules, the individual must offset the QBI attributable to each trade or business that produced net positive QBI with the QBI from each trade or business that produced net negative QBI in proportion to the relative amounts of net QBI in the trades or businesses with positive QBI. The adjusted QBI is then used in computing the pass-through deduction.

- **QBI component (cont)** No W-2 wages or UBIA of qualified property from trades or businesses that produced net negative QBI are taken into account or carried over to the subsequent year.
- **QBI component (cont)** The QBI component, the factor that replaces the simple QBI in the pass-through deduction calculation when the taxpayer's taxable income exceeds the threshold amount, is the lesser of A and B, where A equals 20 percent of the QBI and B equals the greater of a) 50 percent of W-2 wages or b) the sum of 25 percent of W-2 wages plus 2.5 percent of the UBIA of qualified property.

- **Determining W-2 Wages** W-2 wages are amounts paid by an employer to employees during the taxable year and may be determined under the:
  - Modified Box Method
  - Unmodified Box Method
  - Tracking Wages Method

- **UBIA of Qualified Property** UBIA is the unadjusted basis of qualified property immediately after acquisition.
  - Qualified property is tangible property subject to the allowance for depreciation under § 167(a) that is held by the trade or business at the close of the taxable year, used at any point during the taxable year in the trade or business's production of QBI and for which the depreciable period has not ended before the close of the taxable year.
  - Depreciable period means the period beginning on the date the property was first placed in service and ending on the later of 10 years after the date first placed in service, or the last day of the last full year in the applicable recovery period that would apply to the property.

Example 1 – No Wages Paid or Qualified Property Held

Arthur, an unmarried sole proprietor, operates a business that generates $1,000,000 of QBI in 2023. The business paid no wages and holds no qualified property for use in the business. After allowable deductions unrelated to the business, Arthur's total taxable income for 2023 is $980,000. Because Arthur's taxable income exceeds the applicable threshold amount, his § 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations.

Since the business paid no wages nor held any qualified property, Arthur's § 199A deduction is limited to zero.

Example 2 – Qualified Property Held

However, let's add some additional information. Suppose Arthur's total taxable income is $3,980,000, and his pass-through business holds qualified property with a UBIA of $10,000,000 for use in the trade or business and reports $4,000,000 of QBI. The addition of the qualified property produces a different result for Arthur.

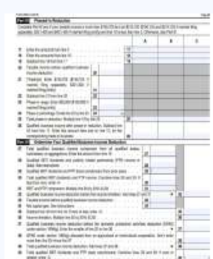
Because Arthur's taxable income is above the threshold amount, the QBI component of his § 199A deduction is subject to the W-2 wage and UBIA of qualified property limitations. Because the business has no W-2 wages, the QBI component of Arthur's § 199A deduction is limited to the lesser of 20 percent of the business's QBI or 2.5 percent of its UBIA of qualified property. Twenty percent of the $4,000,000 of QBI is $800,000. Two and one-half percent of the $10,000,000 UBIA of qualified property is $250,000. The QBI component of Arthur's § 199A deduction is thus limited to $250,000.

Example 2 – Qualified Property Held (cont.)

Arthur's § 199A deduction is equal to the lesser of:

- 20 percent of the QBI from the business as limited ($250,000); or
- 20 percent of Arthur's taxable income ($3,980,000 x 20 percent = $796,000).

Therefore, Arthur's § 199A deduction is $250,000.



Chapter 3 – When Taxable Income is Within Phase-In Range

Considering the pass-through deduction authorized under the TCJA and its calculation for taxpayers whose taxable income exceeds the applicable threshold amount but remains within the phase-in range.

Chapter 3 Learning Objectives

- Determine when the general rule for calculating QBI is modified for § 199A deduction purposes;
- Apply the pass-through deduction rules to calculate the reduction percentage and the applicable percentage for purposes of the § 199A deduction;
- Calculate the § 199A deduction for a pass-through business other than an SSTB whose owner's taxable income is within the phase-in range; and
- Calculate the § 199A deduction for an SSTB pass-through business whose owner's taxable income is within the phase-in range.

- **Calculating the QBI Component** The general rule for calculating the qualified business income (QBI) component of the § 199A pass-through deduction is modified if the taxpayer's taxable income exceeds the threshold amount but not the sum of the threshold amount plus the phase-in range.

- **Taxpayers With Taxable Income Within Phase-In Range** A taxpayer's phase-in range, for purposes of the § 199A pass-through deduction is the amount of taxable income that exceeds the applicable threshold amount but is less than the sum of the applicable threshold amount plus the phase-in range.

Taxpayer's Filing Status	2022 Threshold Amount	2023 Threshold Amount	Phase-In Range
Married filing jointly	$340,100	$364,200	$100,000
Married filing separately	$170,050	$182,100	$50,000
Single & head of household filers	$170,050	$182,100	$50,000

NOTE: Modification of the QBI of a pass-through business when owned by a taxpayer whose taxable income is within the phase-in range varies, depending on whether or not the business is an SSTB.

- **Determining the Applicable Percentage** To determine the amount, if any, by which the QBI component is reduced when a business owner's taxable income is within the phase-in range, a reduction percentage must be calculated.
  - The reduction percentage is the percentage of the applicable phase-in range represented by the business owner's taxable income in excess of the threshold amount.
  - The applicable percentage is equal to 100 percent minus the reduction percentage.

- **Calculating the Pass-Through Deduction – Modification for Non-SSTBs** The QBI component for a non-SSTB business owner whose taxable income is within the phase-in range is equal to the business's QBI reduced by the amount by which the QBI exceeds the greater of (a) 50 percent of W-2 wages or (b) 25 percent of W-2 wages plus 2.5 percent of the UBIA of qualified property multiplied by the reduction percentage.

Example 1 Non-SSTB Modification

Suppose an MFJ pass-through business owner's taxable income for 2023 is $394,200. Because the 2023 threshold amount for a married taxpayer filing a joint return is $364,200, the business owner's taxable income is $30,000 in excess of the applicable threshold. Since the phase-in range for a MFJ taxpayer is $100,000, the reduction percentage is 30 percent ($30,000 ÷ $100,000 = 30%).

Further suppose, for purposes of our example, that the:

- Taxpayer has no REIT dividends or PTP income,
- Qualified business income is $400,000,
- W-2 wages paid during the year are $40,000, and
- Business holds no qualified property.

Example 1 (cont.)

Computation of the § 199A pass-through deduction in this case is done as follows:

1. Determine 20% of the QBI and the W-2 wage limitation:
   a. Multiply the QBI ($400,000) by 20 percent to obtain $80,000.
   b. Multiply W-2 wages ($40,000) by 50 percent to obtain the wage limitation of $20,000.
2. Because a) the owner's taxable income is within the phase-in range and b) 20% of the QBI ($80,000) is greater than the W-2 limitation ($20,000), subtract the W-2 limitation from 20% of the QBI and multiply the result ($60,000) by the reduction percentage (30 percent) to obtain the reduction ($18,000) that must be taken from 20% of the QBI. Subtract the reduction ($18,000) from 20% of the QBI ($80,000) to obtain the adjusted QBI component of the owner's § 199A pass-through deduction ($62,000).
3. Since the deduction is equal to the lesser of a) 20 percent of the QBI as limited ($62,000) plus 20 percent of combined qualified REIT dividends/PTP income ($0) or b) 20 percent of taxable income ($78,840), the § 199A pass-through deduction is $62,000.

Phase-In Worksheet Non-SSTB Business or Trade

Unadjusted QBI component is **the lesser** of A and B, where:

A equals 20 percent of the combined QBI for that trade or business; and
B equals the greater of –

- 50 percent of W-2 wages with respect to that trade or business, or
- The sum of 25 percent of W-2 wages with respect to that trade or business plus 2.5 percent of the UBIA of qualified property with respect to that trade or business.

1. Taxable income	1. $394,200
2. Applicable threshold amount	2. $364,200
3. Phase-in range	3. $100,000
4. Does taxable income (line 1) exceed the applicable threshold (line 2)? ✓ Yes __ No If "yes," proceed to 5 below. If "no," pass-through deduction is computed without modification.	
5. Is taxable income greater than the sum of the applicable threshold and phase-in range? __ Yes ✓ No If "yes," phase-in calculation does not apply. If "no," proceed to 6 below.	
6. Subtract line 2 from line 1. If the result is a positive number, place on line 6 otherwise leave blank.	6. $30,000

Phase-In Worksheet Non-SSTB Business or Trade (cont.)

6. Subtract line 2 from line 1. If the result is a positive number, place on line 6 otherwise leave blank.	6. $30,000
7. Determine the **reduction percentage** by dividing the amount on line 6 by line 3 and place on line 7.	7. 30%
8. Compute the **applicable percentage** by subtracting the percentage on line 7 from 100 percent and place on line 8.	8. 70%
9. Place the result of the item A calculation on line 9.	9. $80,000
10. Place result of the item B calculation on line 10.	10. $20,000
11. Subtract line 10 from line 9. If the result is positive, place on line 11; if result is "0" or less, place "0" on line 11 and proceed to line 13.	11. $60,000
12. Multiply line 11 by line 7 and place on line 12.	12. $18,000
13. If line 11 is a positive number, subtract line 12 from line 9 and place on line 13. If line 11 is "0" or less, place line 9 on line 13.	13. $62,000
14. Multiply combined qualified REIT dividends/PTP income by 20 percent and place on line 14.	14. $0
15. Add line 13 to line 14 and place on line 15.	15. $62,000
16. Multiply line 1 by 20 percent and place on line 16.	16. $78,840
17. Place the lesser of line 15 or line 16 on line 17. This is the pass-through deduction	17. $62,000

- **SSTBs and Taxpayers with Taxable Income in Phase-In Range** If an SSTB business owner's taxable income is within the phase-in range and the amount determined as the greater of (a) 50 percent of the adjusted W-2 wages or (b) the sum of 25 percent of the adjusted W-2 wages plus 2.5 percent of the adjusted UBIA is less than 20 percent of the adjusted QBI, the QBI component is 20 percent of the adjusted QBI reduced by the reduction amount.

- **Calculating the Pass-Through Deduction – Modification for SSTBs** To determine the SSTB's reduced QBI when the business owner's taxable income is within the phase-in range,
  a. calculate the adjusted QBI, W-2 wages and UBIA by multiplying each by the applicable percentage,
  b. subtract the greater of (a) 50 percent of adjusted W-2 wages or (b) 25 percent of adjusted W-2 wages plus 2.5 percent of the adjusted UBIA of qualified property from the adjusted QBI,
  c. multiply the amount by which the adjusted QBI exceeds the greater of 50 percent of adjusted W-2 wages or 25 percent of adjusted W-2 wages plus 2.5 percent of adjusted UBIA by the applicable reduction, and
  d. subtract the result obtained in (3) above from the adjusted QBI. That is the SSTB's reduced QBI for purposes of the pass-through deduction.

- No reduction applies to an SSTB's QBI if the business owner's taxable income is within the phase-in range and the greater of (a) 50 percent of adjusted W-2 wages or (b) 25 percent of adjusted W-2 wages plus 2.5 percent of the adjusted UBIA of qualified property exceeds the adjusted QBI.
- To determine an SSTB's reduced qualified REIT dividends/qualified PTP income component of the pass-through deduction when the business owner's taxable income is within the phase-in range, multiply 20 percent of the combined amount of qualified REIT dividends and qualified PTP income received by the applicable percentage.
- If a business owner's taxable income exceeds the sum of the threshold amount plus the phase-in range, then none of the individual's share of QBI, W-2 wages, or UBIA of qualified property attributable to an SSTB may be taken into account for purposes of determining the § 199A deduction.

Example 2 – SSTB Modification

Let's return to our earlier example, add some facts and put it through this calculation. Recall that the MFJ business owner's taxable income for 2023 is $394,200 and the 2023 threshold amount for a married taxpayer filing a joint return is $364,200, making the business owner's taxable income in excess of the applicable threshold $30,000. Because the phase-in range for a MFJ taxpayer is $100,000, the reduction percentage is 30 percent ($30,000 ÷ $100,000 = .30). Therefore, the taxpayer's applicable percentage is 70 percent.

As noted in Example 1, the taxpayer has no REIT dividends or PTP income; the qualified business income is $400,000; the W-2 wages paid during the year are $40,000; and no qualified property is held for use by the business.

Example 2 (cont.)

The computation is made as follows:

1. Determine the reduced QBI and W-2 wage limitation by multiplying each amount by the applicable percentage (.70).
   a. Multiply the QBI by 20 percent to obtain the unadjusted 20% of QBI ($80,000).
   b. Multiply the unadjusted 20% of QBI ($80,000) by .70 to obtain the 20% of adjusted QBI ($56,000).
   c. Multiply W-2 wages ($40,000) by .50 to obtain the unadjusted wage limitation of $20,000.
   d. Multiply the unadjusted W-2 wage limitation ($20,000) by .70 to obtain the adjusted W-2 wage limitation ($14,000).

Example 2 (cont.)

2. Because a) the business is an SSTB, b) the owner's taxable income is within the phase-in range and c) 20% of the adjusted QBI ($56,000) is greater than the adjusted W-2 limitation ($14,000), subtract the adjusted W-2 limitation from 20% of the adjusted QBI and multiply the result ($42,000) by the reduction percentage (30 percent) to obtain the reduction ($12,600) that must be taken from the adjusted QBI.
3. Subtract the reduction ($12,600) from 20% of the adjusted QBI ($56,000) to obtain the QBI component of the owner's § 199A pass-through deduction ($43,400).
4. Since the deduction is equal to the lesser of 20 percent of the QBI as limited ($43,400) plus 20 percent of combined qualified REIT dividends/PTP income ($0) or 20 percent of taxable income ($78,840), the § 199A pass-through deduction is $43,400.

Phase-In Worksheet–SSTB Business or Trade

Unadjusted QBI component is **the lesser** of A and B, where:
A equals 20 percent of the QBI for that trade or business; and
B equals the greater of –
- 50 percent of W-2 wages with respect to that trade or business, or
- The sum of 25 percent of W-2 wages with respect to that trade or business plus 2.5 percent of the UBIA of qualified property with respect to that trade or business.

1. Taxable income	1. $394,200
2. Applicable threshold amount	2. $364,200
3. Phase-in range	3. $100,000
4. Does taxable income (line 1) exceed the applicable threshold (line 2)? √ Yes __ No. If "yes," proceed to 5 below. If "no," pass-through deduction is computed without SSTB modification.	
5. Is taxable income greater than the sum of line 2 and line 3? __ Yes √ No. If "yes," taxpayer is ineligible for a pass-through deduction. If "no," proceed to 6 below.	
6. Subtract line 2 from line 1. If the result is a positive number, place on line 6; if result is "0" or less, do not modify pass-through calculation.	6. $90,000
7. Determine the **reduction percentage** by dividing the amount on line 6 by line 3 and place on line 7.	7. 90
8. Compute the **applicable percentage** by subtracting the percentage on line 7 from 100 percent and place on line 8.	8. 10
9. Place taxpayer's share of QBI on line 9.	9. $400,000
10. Place taxpayer's share of W-2 wages on line 10.	10. $140,000

Phase-In Worksheet–SSTB Business or Trade (cont.)

11. Place taxpayer's share of .025% of UBIA of qualified property on line 11.	11. $0
12. Multiply line 9 by line 8 and place on line 12.	12. $280,000
13. Multiply line 10 by line 8 and place on line 13.	13. $28,000
14. Multiply line 11 by line 8 and place on line 14.	14. $0
15. Multiply line 12 by .20 and place on line 15. (This is taxpayer's adjusted share of QBI.)	15. $56,000
16. Multiply line 13 by .50 and place on line 16. (This is taxpayer's adjusted share of W-2 wages.)	16. $14,000
17. Multiply line 13 by .25 and place on line 17.	17. $7,000
18. Multiply line 14 by .025 and place on line 18. (This is taxpayer's adjusted share of UBIA of qualified property.)	18. $0
19. Add line 17 to line 18 and place on line 19.	19. $7,000
20. Place greater of line 16 and line 19 on line 20. (This is the result of the Item B calculation.)	20. $14,000
21. Subtract line 20 from line 15 and place on line 21.	21. $42,000
22. Multiply line 21 by line 7 and place on line 22.	22. $12,600
23. Subtract line 22 from line 15 and place on line 23. (This is the QBI component of the pass-through deduction.)	23. $49,840 0
24. Multiply line 1 by 20% and place on line 24. (This is 20% of taxpayer's taxable income.)	24. $78,840
25. Place the lesser of line 23 and line 24 on line 25. (This is taxpayer's pass-through deduction.)	25. $49,840 0

Chapter 4 – Specified Services Trades or Businesses (SSTBs)

Considering the nature of specified services trades or businesses (SSTB), the pass-through deduction for which may be reduced or eliminated depending on the business owner's taxable income.

Chapter 4 Learning Objectives

- Recognize a qualified trade or business; and
- Identify specified service trades or businesses (SSTBs).

- **Qualified Trade or Business** A qualified trade or business is any trade or business other than a specified service trade or business or the trade or business of performing services as an employee.

§ 1202(e)(3)(A) For purposes of this subsection, the term "qualified trade or business" means any trade or business other than:

(A) 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.

- **Specified Service Trade or Business** A specified service trade or business is any trade or business involving the performance of services in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investing and investment management, trading in securities, commodities or partnership interests, or any trade or business in which the principal asset is the reputation or skill of one or more of its employees or owners, as defined and limited by the IRS.

§ 199A (d)(2) SPECIFIED SERVICE TRADE OR BUSINESS.— The term 'specified service trade or business' means any trade or business—

A. which is described in § 1202(e)(3)(A) (applied without regard to the words 'engineering, architecture,') or which would be so described if the term 'employees or owners' were substituted for 'employees' therein, or
B. which involves the performance of services that consist of investing and investment management, trading, or dealing in securities (as defined in § 475(c)(2)), partnership interests, or commodities (as defined in § 475(e)(2)).

- **SSTBs** An SSTB is a trade or business involving the performance of services in one or more of the following fields
  - Health
  - Law
  - Accounting
  - Actuarial science
  - Performing arts
  - Consulting
  - Athletics
  - Financial services
  - Brokerage servicesInvesting and investment management
  - Trading
  - Dealing in securities, partnership interests or commodities
  - Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners

Example 1

Harry is a board-certified pharmacist who contracts as an independent contractor with First Regional Hospital, a small medical facility in a rural area. The hospital employs one full time pharmacist, but contracts with Harry when its needs are greater than their fully-time staff can handle.

When Harry is employed by the hospital, he is responsible for various support activities, including:

- receiving and reviewing orders from physicians providing medical care at the hospital;
- making recommendations on dosing and alternatives to the ordering physician;
- performing inoculations;
- checking for drug interactions; and
- filling pharmaceutical orders for patients receiving care at the hospital.

Example 1 (cont.)

Based on the foregoing facts, Harry, a pharmacist, is engaged in the performance of services in the field of health within the meaning of § 199A(d)(2) and is, therefore, deemed to be an SSTB. The conclusion reflects Harry's providing medical services in his capacity as a pharmacist.

Example 2

Waylon writes and records songs. He is paid royalties when those songs are played as follows:

- a mechanical royalty when the song is licensed or streamed; and
- a performance royalty when the recorded song is played publicly.

Example 2 (cont.)

Waylon is considered to be engaged in the performance of services in an SSTB in the field of performing arts within the meaning of § 199A(d)(2) in that his writing and recording require skills unique to the creation of performing arts. Accordingly, the royalties he receives for his songs are ineligible for a pass-through deduction under § 199A.

Trades or Businesses Not Considered SSTBs

Although a trade or business may appear to be an SSTB on its face and, therefore, subject to a reduced pass-through deduction or ineligibility for it, a taxpayer or preparer attempting to determine whether a trade or business is an SSTB needs to look beyond its name and consider its activities.

Example 1

Edna is the operator of Linden Landing, a residential facility that provides a variety of services to senior citizens who reside on its campus. For residents, Edna offers standard domestic services including housing management and maintenance, meals, laundry, entertainment, and other similar services.

In addition, Linden Landing contracts with local professional healthcare organizations to offer residents a range of medical and health services provided at its facility. Those medical and health services include:

- skilled nursing care,
- physical and occupational therapy,
- speech-language pathology services,
- medical social services,
- medications,
- medical supplies and equipment used in the facility,
- ambulance transportation to the nearest supplier of needed services, and
- dietary counseling

Example 1 (cont.)

Linden Landing receives all its income from residents for the costs associated with residing at the facility. However, any health and medical services are billed directly by the healthcare providers to the senior citizens for those professional healthcare services even though those services are provided at the facility. Based on the presented facts, the business, Linden Landing, does not perform services in the field of health within the meaning of § 199A(d)(2) and is not considered an SSTB.

Example 2

Doctors' Surgical Center, a private organization, operates specialty surgical centers throughout the country that provide outpatient medical procedures not ordinarily requiring the patient to remain overnight following the procedure. For each facility, Doctors' Surgical Center performs the following services:

- It ensures compliance with state and federal laws for medical facilities.
- It manages the facility's operations.
- It performs all administrative functions.

It does not employ physicians, nurses, and medical assistants. Instead, it enters into agreements with other professional medical organizations or directly with the medical professionals to perform the procedures and provide all medical care.

Example 2 (cont.)

Patients are billed by the Center for the facility costs relating to their procedure and by the healthcare professional or their affiliated organization for the actual costs of the procedure conducted by the physician and medical support team. Based on its functions, Doctors' Surgical Center is not an SSTB since it does not perform services in the field of health within the meaning of § 199A(d)(2) nor as described in the final regulations.

Questions