Financial, Legal & Tax Advisory

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Qualified Business Income Deduction

The qualified business income deduction (QBI) is a tax deduction that allows eligible self-employed and small-business owners to deduct up to 20% of their qualified business income on their taxes. Generally, total taxable income in 2024 must be under 191,950 for single filers and $383,900 for joint filers. If you're over that limit, complicated IRS rules determine whether your business income qualifies for a full or partial deduction. Here is how the qualified business income deduction generally works.

Many owners of sole proprietorships, partnerships, S corporations, and some trusts and estates may be eligible for a QBI deduction – also called the Section 199A deduction. This was part of the Tax Cuts and Jobs Act (TCJA), signed into law in 2017, and is applicable for tax years beginning after December 31, 2017, and ending on or before December 31, 2025. The deduction allows eligible taxpayers to deduct up to 20% of their QBI, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

Those who receive earnings through a C Corporation or by providing services as an employee are not eligible for the deduction. This deduction is eligible for taxpayers regardless of whether they itemize their deductions or take the standard deduction. Section 199A is made up of two components, the QBI component and the REIT/PTP component.

- QBI Component: This component of the deduction is equal to 20 percent of QBI from a domestic business as a sole proprietorship or through a partnership, S corporation, trust, or estate.

QBI is the net number of qualified items of income, gain, deduction, and loss from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts. Generally, this includes but is not limited to, the deductible part of self-employment tax, self-employed health insurance, and deductions for contributions to qualified retirement plans (e.g., SEP, SIMPLE, and qualified plan deductions).

- REIT/PTP Component: This component of the deduction equals 20 percent of qualified REIT dividends and qualified PTP income. Distributions from REITs are usually a combination of return of capital, capital gain distribution, and ordinary dividends.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxpayer's taxable income minus net capital gain. Specified service trades or businesses (SSTBs) are only eligible for the QBI deduction if your income does not exceed a certain threshold ($241,950 for single and $483,900 for married filing jointly in 2024).

Some examples of SSTBs are businesses that perform services in the fields of Health, Law, Accounting, Actuarial Science, performing arts, Consulting, Athletics, Financial Services, Investing, and Investment Management. At The Center for Financial, Legal & Tax Planning, Inc., (The Center) we are very knowledgeable regarding the use of Section 199A Deductions. If you have any questions regarding the QBI or REIT/PTP Deduction, please feel free to reach out at our website, www.taxplanning.com, or by phone at (618) 997-3436.

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