



199A Qualified Business Income (QBI) Deduction

Enclosed is information from the IRS and DATAIR to help you understand the 199A Qualified Business Income (QBI) Deduction and how to use it with the DATAIR Pension System.

From the IRS:

<https://www.irs.gov/newsroom/qualified-business-income-deduction>

Many owners of sole proprietorships, partnerships, S corporations and some trusts and estates may be eligible for a qualified business income (QBI) deduction – also called Section 199A – for tax years beginning after December 31, 2017. The deduction allows eligible taxpayers to deduct up to 20 percent of their qualified business income (QBI), plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income.

Income earned through a C corporation or by providing services as an employee is not eligible for the deduction. For more information on what qualifies as a trade or business, see

Determining your qualified trades or businesses in IRS Publication 535:

<https://www.irs.gov/pub/irs-pdf/p535.pdf>

The deduction is available, regardless of whether taxpayers itemize deductions on Schedule A or take the standard deduction. Eligible taxpayers can claim it for the first time on the 2018 federal income tax return they file in 2019.

The deduction has two components.

1. QBI Component. This component of the deduction equals 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. The QBI Component is subject to limitations, depending on the taxpayer's taxable income, that may include the type of trade or business, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. It may also be reduced by the patron reduction if the taxpayer is a patron of an agricultural or horticultural cooperative.

2. REIT/PTP Component. This component of the deduction equals 20 percent of qualified REIT dividends and qualified PTP income. This component is not limited by W-2 wages or the UBIA of qualified property. Depending on the taxpayer's taxable income, the amount of PTP income that qualifies may be limited depending on the PTP's trade or business.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxable income minus net capital gain.

QBI is the net amount 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).

QBI does not include items such as:

- Items that are not properly includable in taxable income
- Investment items such as capital gains or losses or dividends
- Interest income not properly allocable to a trade or business
- Wage income
- Income that is not effectively connected with the conduct of business within the United States
- Commodities transactions or foreign currency gains or losses
- Certain dividends and payments in lieu of dividends
- Income, loss, or deductions from notional principal contracts
- Annuities, unless received in connection with the trade or business
- Amounts received as reasonable compensation from an S corporation
- Amounts received as guaranteed payments from a partnership
- Payments received by a partner for services other than in a capacity as a partner
- Qualified REIT dividends
- PTP income

Solely for the purposes of § 199A, a safe harbor is available to individuals and owners of pass-through entities who seek to claim the deduction under section 199A with respect to a rental real estate enterprise. Under the safe harbor a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction if certain criteria are met. For more information, on the safe harbor see News Release IR-2019-158: <https://www.irs.gov/newsroom/irs-finalizes-safe-harbor-to-allow-rental-real-estate-to-qualify-as-a-business-for-qualified-business-income-deduction>

Rental real estate that does not meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.

From DATAIR – Release notes for version 1.20

Please note PE does not consider the special rules for Patrons of Agricultural or Horticultural Cooperatives (COOP). In addition, the total qualified REIT dividend and PTP loss carryforward from prior years is assumed to be zero.

Each owner's "Estimated 199A Deduction" computed is illustrated in part on Employees | Accounts | 199A tab. "Taxable Income Before 199A Deduction" and "Qualified Business Income" both without and with the plan are completed by the system based on data supplied. However, the amounts may be overridden. In addition, other items that need to be input for an accurate estimate are:

- 1) "Net Business Gains"
- 2) "W-2 Wages Paid by Business"
- 3) "UBIA of Qualified Property of Business"
- 4) "Qualified REIT Div & PTP Income"
- 5) "Qualified SSTB REIT Income"

The reduction due to the plan in the "Taxable Income Before 199A Deduction" and "Qualified Business Income" is automatically computed based on the owner's cost plus the owner's share of employees' cost less any decrease in the self-employment tax deduction due to share of employees' cost. The reduction is applied to the "Taxable Income Before 199A Deduction" and "Qualified Business Income" without the plan as computed by PE or overridden by user.

Please understand that the resulting estimated 199A Deductions are estimates based on the above input items without considering additional complexities. Thus, it is always recommended that the figures should be discussed with the Tax Advisor(s) to be sure the determination is correct.

Although the estimated 199A Deduction is available per owner on their Employees| Accounts | 199A tab, a new report labeled 199A QBI Deduction can be found in the report scheduler under the Participant tab.

Please see these websites for more information on 199A Qualified Business Income:

<https://www.irs.gov/pub/irs-pdf/p535.pdf>

<https://www.irs.gov/newsroom/qualified-business-income-deduction>

<https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs>

<https://www.law.cornell.edu/uscode/text/26/199A>

Check this box if the Sponsor is a Specified Service or Trade Business (SSTB)

1 Plan / Sponsor | 2 Provisions | 3 Assumptions | 4 Misc

Sponsor

Company Name: 199A QBI
Company Ident: 199ASSTBE
EIN: 98-5412411
Sort Name: 199A QBI
Form of Business: Sole-Proprietorship

Address: _____
City: _____ ST: _____ ZIP Code: _____ Country: _____
Phone: () - _____ Fax: () - _____ Fiscal Year End (mm/dd): /
Email Address: _____ Web Address: _____ NAICS: _____

SSTB for 199A

Agd/Edit Class, Div, or Loc

Company Notes: _____

Select Sponsor

Employee Level:

On Employee|Accounts there is a new screen 199A Ded. This screen is only available for owners

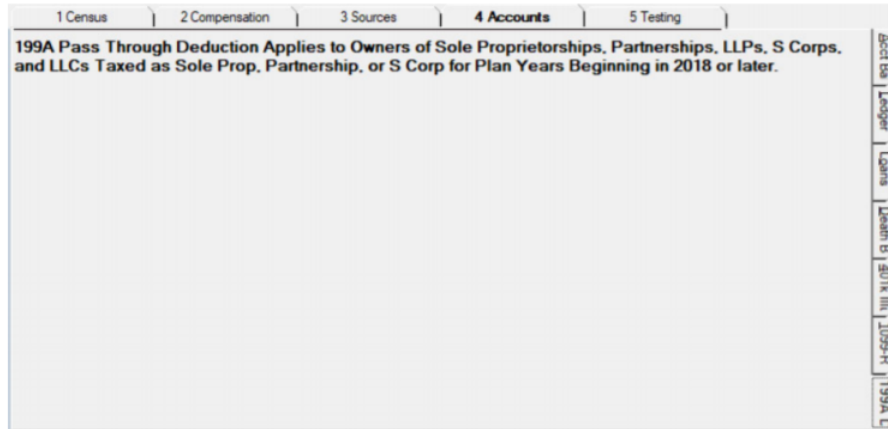
1 Census | 2 Compensation | 3 Sources | 4 Accounts | 5 Testing

199A Pass Through Deduction

	Without Plan	With Plan	
Taxable Income Before 199A Deduction	0	0	Marital Status: Married
Net Capital Gains (NCG)	0	0	<input checked="" type="checkbox"/> Specified Service Trade or Business (SSTB)
Qualified Business Income (QBI)	0	0	Threshold for Phase Out: 0
W-2 Wages Paid by Business	0	0	Max Threshold for Phase Out: 0
UBIA of Qualified Property in Business (UBIA)	0	0	Qualified REIT Divd + PTP Income: 0
20% of QBI	0	0	Qualified SSTB PTP Income: 0
20% of Taxable Income Less NCG	0	0	Owner's Share of Plan Cost: 0
Applicable Phase-in Percentage-SSTB	0%	0%	
50% of Wages	0	0	
25% of Wages	0	0	
2.5% of Qualified Property (UBIA)	0	0	
Greater of 50% Wages or 25% of Wages Plus 2.5% of UBIA	0	0	
QBI Less Greater of Wage and UBIA Limitations	0	0	
Applicable Phase-in Percentage	0%	0%	
QBI Reduction	0	0	
Plus 20% of REIT Divd + PTP Income	0	0	
Estimated 199A Deduction	0	0	

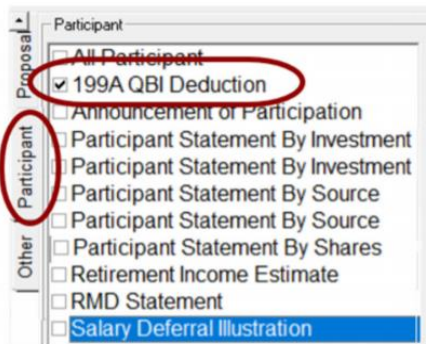
199A Ded

All non-owner employees will have this screen:



Reports:

199A QBI Deduction for each participant can be found under the Participant tab



NOTE: The report is formatted to accommodate SSTBs and other businesses regardless of whether the owners is below, between, or above the taxable income thresholds available under 199A

199A Qualified Business Income (QBI) Deduction

Sample Plan
For the plan year 01/01/2019 through 12/31/2019
Harold B

	<u>No Plan</u>	<u>With Plan</u>
<u>A. Specified Service Trades or Businesses (SSTB) Applicable Percentage</u>		
1. Taxable Income Prior to Qualified Business Income (QBI) Deduction and Plan Cost	158,000	158,000
2. Share of Plan Cost	0	40,375
3. Taxable Income Prior to QBI Deduction After Plan Cost (A1-A2, not less than 0)	158,000	117,625
4. Applicable Threshold Based on Marital Status	157,500	157,500
5. Maximum Threshold Based on Marital Status	207,500	207,500
6. Phase-In Range (A5-A4)	50,000	50,000
7. Taxable Income in Excess of Applicable Threshold not Exceeding Maximum Threshold (A3-A4, not less than 0 or greater than A6)	500	0
8. Phase-In Percentage (A7/A6)	1%	0%
9. Specified Service Trade or Business (SSTB) Applicable Percentage (100% or 100%-A8 if SSTB)	100%	100%
<u>B. Qualified Business Income Deduction Prior to Limitations</u>		
1. Total Qualified Business Income (QBI) Prior to Plan Cost	0	0
2. Share of Plan Cost (A2)	0	40,375
3. Total QBI After Plan Cost (B1-B2, not less than 0)	0	0
4. 20% of QBI After Plan Cost (B3*.2)	0	0
5. 20% of QBI After Plan Cost Adjusted by SSTB App % (B4*A9)	0	0
<u>C. Taxable Income Limitation</u>		
1. Taxable Income Prior to QBI Deduction After Plan Cost (A3)	158,000	117,625
2. Net Capital Gains	0	0
3. Income Limit on QBI ((C1-C2)*.2, not less than 0)	31,600	23,525
<u>D. W-2 Wage and Qualified Property Limitation</u>		
1. W-2 Wages from Business	0	0
2. W-2 Wages from Business Adjusted by SSTB App % (D1*A9)	0	0
3. Unadjusted Basis (UBIA) of Qualified Property	0	0
4. UBIA of Qualified Property Adjusted by SSTB App % (D3*A9)	0	0
5. 50% of W-2 Wages (D2*.5)	0	0
6. 25% of W-2 Wages (D2*.25)	0	0
7. 2.5% of UBIA of Qualified Property (D4*.025)	0	0
8. W-2 Wage and Qualified Property Limit on QBI (Greater of D5 or (D6+D7))	0	0

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For the plan year 01/01/2019 through 12/31/2019
Harold B

	<u>No Plan</u>	<u>With Plan</u>
<u>E. Phase-In Reduction Limitation</u>		
1. 20% of QBI After Any Plan Cost Adjusted by SSTB App % (B5)	0	0
2. W-2 Wage and Qualified Property Limit on QBI (D8)	0	0
3. QBI in Excess of Wage and Property Limit (E1-E2, not less than 0)	0	0
4. Taxable Income Prior to QBI Deduction After Plan Cost (C1)	158,000	117,625
5. Applicable Threshold Based on Marital Status	157,500	157,500
6. Maximum Threshold Based on Marital Status	207,500	207,500
7. Phase-In Range (E6-E5)	50,000	50,000
8. Taxable Income in Excess of Applicable Threshold not Exceeding Maximum Threshold (E4-E5, not less than 0 or greater than E7)	500	0
9. Phase-In Percentage (E8/E7)	1%	0%
10. Phase-In Reduction (E9*E3)	0	0
11. 20% of QBI After Phase-In Reduction (E1-E10)	0	0
<u>F. Estimated QBI Deduction</u>		
1. 20% of QBI After Any Plan Cost Adjusted by SSTB App % (B5)	0	0
2. W-2 Wage and Qualified Property Limit on QBI (D8)	0	0
3. Smaller of F1 and F2	0	0
4. 20% of QBI After Phase-In Reduction (E11)	0	0
5. Greater of F3 and F4	0	0
6. Total Qualified REIT Dividends and PTP Income	0	0
7. 20% of Qualified REIT Dividends and PTP Income (F6 *.2)	0	0
8. SSTB PTP Income	0	0
9. 20% of SSTB PTP Income Adjusted by SSTB App % (F8 * (100%-E9))	0	0
10. QBI Deduction Prior to Taxable Wage Limitation (F5+F7+F9)	0	0
11. Income Limit on QBI (C3)	31,600	23,525
12. Estimated QBI Deduction* (Lesser of F10 and F11)	0	0

*Estimated QBI Deduction based on supplied information without consideration of possible complexities. Review with your Tax Advisor for accuracy.