

## O'NEIL & STEINER, PLLC BUSINESS INCOME DEDUCTION

Originally, the Qualified Business Income Deduction was only good for 2018-2025. It was made permanent in the One Big Beautiful Bill Act (OBBA), though still subject to revision/revocation in future legislation. This allows for a deduction of 20% of “qualified business income” (QBI) for taxpayers who qualify. QBI includes income from a partnership, S corporation, LLC, or sole proprietorship (also referred to as “pass-through” income).

The deduction is 20% of your “qualified business income (QBI)” from a partnership, S corporation, or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to your trade or business. The business must be conducted within the U.S. to qualify, and specified investment-related items are not included, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). Also, QBI does not include reasonable compensation received from an S corporation, or a guaranteed payment received from a partnership for services provided.

The deduction is taken “below the line,” i.e., it reduces your taxable income but not your adjusted gross income. But it is available regardless of whether you itemize deductions or take the standard deduction. In general, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain. If QBI is less than zero it is treated as a loss from a qualified business in the following year and reduces future year QBI.

Rules are in place to deter high-income taxpayers from attempting to convert wages or other compensation for personal services into income eligible for the deduction.

For taxpayers with taxable income above \$197,300 (\$394,600 for joint filers), an exclusion from QBI of income from “specified service” trades or businesses (SSTB) is phased in. These are trades or businesses involving the performance of services in the fields of health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners. If your taxable income is between \$197,301 and \$247,299 (\$394,601 and \$494,600 for joint filers), you would exclude only that percentage of income derived from a fraction the numerator of which is the excess of taxable income over \$197,300 and the denominator of which is \$50,000 (numerator is excess over \$394,600 and denominator is \$100,000 for joint filers).

Additionally, for taxpayers with taxable income more than the above thresholds, a limitation on the amount of the deduction is phased in based either on wages paid or wages paid plus a capital element. If your taxable income is at least \$50,000 (or \$100,000) above the threshold, your deduction for QBI cannot exceed the greater of (1) 50% of taxpayer's allocable share of the W-2 wages paid with respect to the qualified trade or business, or (2) the sum of 25% of such wages plus 2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real estate).

The complexities surrounding this deduction can be formidable, especially if your taxable income exceeds the thresholds discussed above, your business income comes from an SSTB, or from qualified cooperative dividends, REITs, or publicly traded partnerships or any combination of these. Due to the detailed nature of the deduction, we would encourage you to contact the office to schedule a consultation to discuss your situation with relevant details.