

DEDUCTIONS AND CREDITS

Qualified Business Income Estimator



Estimated Tax Deduction from Qualified Business Income

Qualified Business Income Deduction – In General

The Tax Cuts and Jobs Act of 2017 created §199A which allows a deduction of up to 20% against Qualified Business Income (QBI). The deduction is available for all owners of pass-through entities (i.e., S corporations, sole proprietorships, partnerships, or LLCs taxed as such) who report taxable income of less than \$364,200 if married filing jointly (\$182,100 for all other filers) in 2023. For those taxpayers whose income exceeds this threshold, these business owners face a deduction limitation phase-in equal to \$100,000 for married filing jointly and \$50,000 for all other filers.

For income from a trade or business that is not a specified service provider (discussed below), the deduction is the lesser of:

- 20% of QBI; or
- The greater of:
 - 50% of W-2 wages (including W-2 wages paid to owners but not including payments made to contractors); or
 - The sum of 25% of W-2 wages and 2.5% of the unadjusted basis of depreciable assets.

For specified service providers, the deduction is phased out between \$364,200 and \$464,200 (or \$182,100 and \$232,100 if not married filing jointly) and is unavailable if taxable income exceeds \$464,200/\$232,100. A specified service provider is any trade or business that performs services such as medical, dental, accounting, legal actuarial, consulting, performing arts, athletics, or financial, brokerage, or investment management services.

In addition, the calculation of an owner's QBI does not include wages or guaranteed payments (payments made from a partnership to a partner) received by the owner. Lastly, the deduction is limited to the lesser of the owner's combined qualified business income amount or 20% of the owner's taxable income minus capital gains income.

Qualified Business Income Estimation

The following assumptions were considered to estimate your QBI deduction:

- Your pass-through is a specified service provider;
- Your filing status is married filing jointly;
- Your taxable income is \$400,000 and your pass-through income is \$200,000;
- You own 100% of the pass-through; and
- The pass-through reports W-2 wages of \$75,000 and the unadjusted basis of the company's assets is \$100,000.

Based on these assumptions, your estimated qualified business income deduction could be as much as \$25,680.

This is only an estimate and is not to be relied on for your actual return; accordingly, please consult your own accountant.

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