

New Qualified Business Income Tax Deduction

THE QUALIFIED BUSINESS INCOME (QBI) deduction is a new 20 percent deduction available under the Tax Cuts and Jobs Act beginning in tax year 2018. The QBI deduction is available to owners of pass-through entities, such as S corporations, partnerships, sole proprietorships, and many LLCs. Trusts, estates, and their beneficiaries may also qualify for the QBI deduction. Business owners claim the deduction on their individual income tax return on a new line on Form 1040 after determining adjusted gross income (AGI).

Qualified business income includes net income related to the conduct of a business within the United States. Items specifically excluded from the definition of QBI include wages, partnership guaranteed payments,

and investment-type income such as interest, dividends, and capital gains.

Eligibility for the QBI deduction depends on the owner's taxable income and the nature of the business. The QBI deduction is limited

to 20 percent of taxable income before the QBI deduction and net capital gain in all cases. Business owners who have qualified business income and whose 2018 taxable income before the QBI deduction and net capital gain is less than \$157,500 for single taxpayers and \$315,000 for married taxpayers filing jointly qualify for the 20 percent QBI deduction regardless of the type of business.

In contrast, no QBI deduction is permitted for owners of specified service businesses whose 2018 taxable income before the QBI deduction and net capital gain exceeds \$207,500 for single taxpayers and \$415,000 for married taxpayers filing jointly. Wage and property limitations apply when determining the QBI deduction for owners of non-specified service businesses whose 2018 taxable income exceeds \$207,500 for single taxpayers and \$415,000 for married taxpayers filing jointly.

Specified service businesses subject to the additional limitations include businesses which perform services in the fields of health, law, accounting, actuarial science, performing arts, consulting, financial services, athletics, brokerage services, investment management, trading, dealing, and any business in which the principal asset is the reputation or skill of one or more owners or employees. The reputation or skill category includes endorsement and licensing income related to an individual's image, likeness, or identity.

Engineering and architecture businesses are excluded from the definition of a specified service business. A business which provides a certain minimal

amount of services is also not treated as a specified service business.

Owners of businesses which rent property may qualify for the QBI deduction if the rental is considered a trade or business or if the business rents to certain related parties.

Taxpayers may not claim the QBI deduction on the Delaware personal income tax return, which begins with federal AGI.

The new Qualified Business Income deduction offers a significant tax benefit to owners of pass-through entities under the new tax law. Please contact our office if you would like to discuss your eligibility for the QBI deduction. ■



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