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# What Business Owners Should Know About the New Qualified Business Income Deduction

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The recently enacted Tax Cut and Jobs Act (The Act) provides a significant deduction in 2018 for qualified business income (QBI) that comes from a pass-through entity, which includes S corporations, LLCs, or sole proprietorships. Fair warning—this new tax-saving opportunity is a bit complex, so let's break it down.

In general, this deduction is computed at 20% of qualified business income from the pass-through. QBI does not include capital gains/losses, dividends and interest income. It also does not include wages from an S corporation or guaranteed payments from an LLC. Additionally, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain.

## Qualifications

Specified services businesses do not qualify for this deduction, and there are also certain thresholds that a business needs to meet to qualify. However, if at the individual level, taxable income is below a certain amount even service businesses are eligible, and the entity does not need to meet any of the thresholds. The income levels for this are below $157,500 for single taxpayers and below $315,000 for married filing jointly. After this, the deduction for service businesses fully phases out at $207,500 for single and $415,000 for joint returns.

## Exclusions

Once the individual meets the income levels noted above, the entity needs to meet other requirements for the owner to get this deduction. The specified service businesses that do not qualify are those 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.

In addition, for taxpayers in non-service businesses above thresholds noted, there is a limitation at the entity level on how much the deduction can be. So the 20% of QBI deduction cannot exceed the greater of:

1. 50% of your share of W-2 wages paid with respect to the qualified trade or business; or
2. The SUM of
    - 25% of your share of W-2 wages, PLUS
    - b) 2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real property).

This is definitely not a simple calculation, and it has many moving parts. We would be happy to help if you need additional information, or if you would like to work through the specific mechanics of your particular scenario. Please contact Marie Lenarduzzi at 440-449-6800 or email **Marie**.