

TAX FOUNDATION
OF HAWAII

2018 TRUMP TAX UPDATE SECTION 199A

Small Biz Academy

March 9, 2018

QUALIFIED BUSINESS INCOME: § 199A

- Dollar Thresholds
 - Single and HOH: \$157,500 to 207,500 (taxable income)
 - MFJ: \$315K to \$415K
- Qualified Business Income
 - Includes net business income flowing up from partnership, S Corp., or sole proprietorship (SMLLC)
 - Includes REIT dividends and PTP income (unless subject to capital gains rate)
 - Must be effectively connected with U.S. trade or bus.
 - Does not include wages, guaranteed payments, or certain investment items
 - Does not include business income from a specified service business (doctors, brokers, lawyers, accountants NG; engineers, architects OK) if over the dollar thresholds. Allowed if under the thresholds. Phased out if in between.

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- Deduction for QBI
 - Generally 20% of QBI; may be reduced if taxpayer has less in ordinary income.
 - For taxpayers with taxable income above the dollar thresholds, limited by the greater of:
 - 50% of W-2 wages paid by underlying business
 - 25% of W-2 wages + 2.5% of unadjusted basis of depreciable property (excludes fully depreciated property > 10 years after P/I/S as of the end of the taxable year)
 - Limitation is applied separately for each trade or business. Phased in if taxable income within limits.
- Below the line deduction.

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| | Below Taxable Income Range 157.5 or 315K | Phaseout Range | Above Taxable Income Range 207.5 or 415K |
|-----------------------|--|---|--|
| Regular Business | 20% of BI deductible | $AP\% \times BI + (100\% - AP\%) \times$ W-2/asset limit | Larger of W-2 and asset limits |
| Specified Services | 20% of BI deductible | Above multiplied by AP% | No deduction |

AP% (applicable %) is 1 minus how far you are into the phaseout range. For MFJ with 350K, $AP\% = 65\%$ ($350K - 315K = 35K$ which is 35% into the \$100K phaseout range).

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- Example
 - TP, owner of a plumbing business, is MFJ with taxable income of \$335K. \$300K comes from the business after W-2 wages of \$100K. Depreciable assets cost \$100K.
 - Plumbing is not a specified service business.
 - 20% of \$300,000 is \$60,000. This is compared with the larger of: 50% of W-2 wages (\$50K) or 25% of W-2 wages plus 2.5% of depreciables (\$27,500).
 - The phase-in range for MFJ is \$315K – 415K so the taxable income is 20% of the way into the range.
AP%=80%.
 - Deductible amount is reduced by 20% of over limit amount (\$60K – 50K = \$2K) so deductible amount is \$58K.

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- Example
 - TP, a CPA, is MFJ with taxable income of \$335K. \$325K comes from the business after W-2 wages of \$150K. Depreciable assets cost \$100K.
 - Accountancy is a specified service business.
 - The phase-in range for MFJ is \$315K – 415K so the taxable income is 20% of the way into the range.
 - Thus AP% = 80%. We can work with only 80% of the business income, W-2 wages, and assets, namely \$260,000, \$120K, and 80K.
 - 20% of \$260K is \$52K. This is compared with the larger of: 50% of W-2 wages (\$60K) or 25% of W-2 wages plus 2.5% of depreciables (\$32K).
 - This is not over limit (\$52K < 60K) so deductible amount is \$52K.