

OVERHEADS FOR §199A PRESENTATIONS

Example 7 - Three Schedule C's Each With T/B - No Aggregation - F (Single) Owns All Three - T. I. \$2,722,000

	<u>QBI</u>	<u>W-2 Wages</u>	<u>Initial Ded. Amts.</u>
X	\$1,000,000	\$500,000	\$200,000
Y	\$1,000,000	\$ -0-	\$ -0-
Z	\$ 2,000	\$500,000	<u>\$ 400</u>
5. Tentative Ded. Amt.			\$200,400
T. I. \$2,722,000 X 20% =			<u>\$544,400</u>
6. §199A Deduction			<u>\$200,400</u>

Example 8 -Three Schedule C's Each With T/B - F (Single)
Owns All Three - **Same Facts As Example 7 Except F**
Makes Aggregation Election - T. I. \$2,722,000

	<u>QBI</u>	<u>W-2 Wages</u>
X	\$1,000,000	\$ 500,000
Y	\$1,000,000	\$ -0-
Z	<u>\$ 2,000</u>	<u>\$ 500,000</u>
Total	\$2,002,000	<u>\$1,000,000</u>
	<u>X 20%</u>	<u>X 50%</u>
	<u>\$ 400,400</u>	<u>\$ 500,000</u>
4. Tentative Ded. Amount		<u>\$ 400,400</u>
T. I. \$2,722,000 X 20% =		<u>\$ 544,400</u>
5. §199A Deduction		<u>\$ 400,400</u>
<u>Practice Alert!</u>	\$200,000 Aggregation	More Than Without

**Example 9 - Allocating Negative QBI To Other T/Bs
Where No Aggregation Election**

G - Single Three Schedule C's X Y Z -T.I. \$2,120,000

	<u>QBI</u>	<u>W-2 Wages</u>
X	\$1,000,000	\$ 500,000
Y	\$1,000,000	\$ -0-
Z	\$(600,000)	\$ 500,000

50% Allocation of \$(600,000) to X & Y \$1,000,000
\$2,000,000

Modified Numbers:

	<u>QBI</u>	<u>W-2 Wages</u>	<u>Initial §199A Ded.</u>
X	\$ 700,000	\$ 500,000	\$140,000
Y	\$ 700,000	-0-	<u>-0-</u>

8. Tentative §199A Ded \$140,000
T. I. of \$2,120,000 X 20% = \$424,000

9. §199A Deduction **\$140,000**

Example 10 - Treatment of Negative QBI Where Aggregation Election Made

G - Single Three Schedule C's X Y Z -T.I. \$2,120,000

	<u>QBI</u>	<u>W-2 Wages</u>
X	\$1,000,000	\$ 500,000
Y	\$1,000,000	\$ -0-
Z	<u>\$(600,000)</u>	<u>\$ 500,000</u>
 Total	 \$1,400,000	 \$1,000,000
	<u> X 20%</u>	<u> X 50%</u>
	<u>\$ 280,000</u>	<u>\$ 500,000</u>
 3. Tentative Ded. Amount		 <u>\$ 280,000</u>
 T.I. \$2,120,000 X 20% =		 <u>\$ 424,000</u>
 4. §199A Deduction		 <u>\$ 280,000</u>

Practice Alert! \$140,000 More Than Without Aggregation - Y's QBI of \$700,000 X 20% = \$140,000

Example 11 - Overall Negative QBI For Year - No Aggregation Election

2018 - F- Single - Three Schedule C's X, Y, Z

	<u>QBI</u>	<u>W-2 Wages</u>
X	\$1,000,000	\$ 500,000
Y	\$1,000,000	\$ -0-
Z	<u>(\$2,150,000)</u>	<u>\$ 500,000</u>
Neg QBI C/O	<u>(\$ 150,000)</u>	<u>\$1,000,000(No C/O)</u>

<u>2019</u>	<u>QBI</u>	<u>W-2 Wages</u>
X	\$ 200,000	\$ 100,000
Y	\$ 150,000	\$ -0-
Z	(\$ 120,000)	\$ 500
Carry Over	(\$ 150,000)	

Neg. QBI to X (\$270,000) X $\frac{\$200,000}{\$350,000} = \$154,278$

Neg. QBI to Y (\$270,000) X $\frac{\$150,000}{\$350,000} = \$115,722$

Modified Numbers:

<u>2019</u>	<u>Adjusted QBI</u>	<u>W-2 Wages</u>	<u>Initial §199A Ded.</u>
X	\$ 45,722	\$100,000	\$ 9,144
Y	\$ 34,278	\$ -0-	<u>\$ -0-</u>

8. F's Tentative §199A Ded. 2019 **\$ 9,144**
T. I. \$960,000 X 20% = **\$ 192,000**

9. F's §199A Deduction for 2019 **\$ 9,144**

Example 12 - Same As Example 11 Except With Aggregation Election

2018 - Same As Example 11 - (\$150,000) Carryover To 2019

<u>2019 -</u>	<u>QBI</u>	<u>W-2 Wages</u>
X	\$200,000	\$100,000
Y	\$150,000	\$ -0-
Z	(\$120,000)	\$ 500
Carry Over	<u>(\$150,000)</u>	
Total	\$ 80,000	\$100,500
	<u>X 20%</u>	<u>X 50%</u>
	<u>\$ 16,000</u>	<u>\$ 50,250</u>

4. Tentative Ded. Amount \$ 16,000
T.I. of \$960,000 X 20% = \$192,000

5. F's §199A Deduction Amount - 2019 **\$ 16,000**

With Aggregation - Example 12 \$ 16,000

No Aggregation - Example 11 \$ 9,144

Additional Deduction **\$ 6,856 ****

**Y's Adjusted QBI of \$34,278 X 20% = \$6,856

4. Negative Combined Qualified REIT Dividends And Qualified PTP Income Carried Forward And Used To Offset REIT Dividends And PTP Income In Succeeding Taxable Year.

Example 4 - For 2018 F - Single -T.I. \$1,880,000

Net Loss From PTP (\$10,000)				Tentative
50%	QBI	<u>W-2 Wages</u>	<u>UBIA Q.P</u>	<u>§199A Ded.</u>
S Corp				
Z	\$3,000,000	\$1,000,000	\$100,000	\$500,000
T.I.	\$1,880,000 X 20% =			\$376,000
§199A Deduction for 2018				<u>\$376,000</u>

Note! \$10,000 PTP Loss Does Not Reduce \$3,000,000 QBI - Carried Over To 2019 To Offset REIT Divs. & PTP Income

Example 1 - Single - No Capital Gains

<u>2018</u>	<u>QBI</u>	<u>T.I. Limit</u>	<u>§199A Deduction</u>
	\$100,000	\$81,000	
	<u>X 20%</u>	<u>X 20%</u>	
	\$20,000	\$16,200	\$16,200

Example 2 - Single - Capital Gains

<u>2018</u>	<u>QBI</u>	<u>T.I. Limit</u>	<u>§199A Deduction</u>
	\$100,000	\$74,000	
Net Cap Gains	<u> </u>	<u>(\$ 7,000)</u>	
	\$100,000	\$67,000	
	<u>X 20%</u>	<u>X 20%</u>	
	\$ 20,000	\$13,400	\$13,400

EXAMPLE 3 - Prop Reg 1.199A-1(c)(3) - Married Jt. Ret. - No Net Capital Gains - Wages Paid By S Corp To 100% Owner

T. I. on Joint Return is \$270,000

C owns 100% Of S Corp With Landscaping Services T/B

QBI Of S Corp Before C's Wages	\$250,000
Wages Paid To C	<u>(\$150,000)</u>
QBI From S Corp	\$100,000
	<u>X 20%</u>
Tentative §199A Deduction	\$ 20,000
T. I. Of \$270,000 X 20% =	\$ 54,000
 §199A Deduction For 2018	 <u>\$ 20,000</u>

Note! Conclusion 1. Points Out That C's Wages are Not QBI!! However, the wages reduce QBI of S Corp.!!

Question! Should C Reduce Wages In The Future To Maximize §199A Deduction? If so, By How Much?

B's and C's Joint Federal Income Tax Rate Is 24% - A **Reduction In Wages Saves 4.8%** (24% X 20%)**Times Amount of Reduction, Plus FICA Taxes.**

Watson, P.C. v. U.S., 109 AFTR 2d 2012-1059 (CA8)

EXAMPLE 4 - Taxable Income Less Than \$315,000 With QBI, REIT Dividends, And PTP Income -

Note! Same Facts As Example 3 With Addition Of \$1,000 REIT Dividends & \$500 PTP Income

T. I. on Joint Return is \$271,500

C owns 100% Of S Corp With Landscaping Services T/B

QBI Of S Corp Before C's Wages	\$250,000
Wages Paid To C	<u>(\$150,000)</u>
QBI From S Corp	<u>\$100,000</u>
	<u>X 20%</u>
Tentative §199A Deduction For QBI	\$ 20,000
REIT Divs & PTP Income \$1,500 X 20%	<u>\$ 300</u>
Total	\$ 20,300
T. I. Of \$271,500 X 20% =	\$ 54,300
 §199A Deduction For 2018	 <u>\$ 20,300</u>

9. EXAMPLES - Prop Reg 1.199A-1(d)(4) - Individuals With Taxable Income Over \$315,000 Joint/\$157,500 For Others.

Assumptions - All are §162 trades or businesses; all items effectively connected with U. S. T/B; & No Net Capital Gains

EXAMPLE 1 - 2018 - Single With Zero Wages And Zero Qualified Property - T. I. \$980,000

FACTS - 2018

1. D is single and owns and manages several parcels of land leased to airports for parking lots.

			UBIA
2.	<u>QBI</u>	<u>W-2 Wages</u>	<u>Qualified Property</u>
	\$1,000,000	-0-	-0-

CONCLUSION - No §199A Deduction

EXAMPLE 2 - 2020 - Single - Zero Wages - Has Qualified Property - T. I. \$3,980,000

Continuation of Example 1 Into 2019 & 2020

FACTS

2. D Constructs Depreciable Parking Structures In **2019** Costing \$10,000,000

		UBIA	
3. For 2020	<u>QBI</u>	<u>W-2 Wages</u>	<u>Qualified Property</u>
	\$4,000,000	-0-	\$10,000,000
	<u> X 20%</u>	<u> X 20%</u>	<u> X 2.5%</u>
	<u>\$ 800,000</u>	<u> -0-</u>	<u>\$ 250,000</u>

D's Tentative Deduction Amount	\$ 250,000
T. I. \$3,980,000 X 20% =	\$ 796,000

D's §199A Deduction	<u>\$ 250,000</u>
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Example 3 - Single, 30% Partnership Interest - Has W-2 Wages & Qualified Property - T. I. \$880,000

FACTS

1. E Owns 30% of LLC Treated As Partnership - Is Not SSTB

	<u>QBI</u>	<u>W-2 Wages</u>	<u>UBIA Qualified Prop.</u>
2. 30% Of LLC	\$900,000	\$300,000	\$ 30,000
			<u>X 2.5%</u>
			\$ 750
\$300,000 X 25%			\$ 75,000
	<u>X 20%</u>	<u>X 50%</u>	
Totals	<u>\$180,000</u>	<u>\$150,000</u>	<u>\$ 75,750</u>

Tentative Deduction Amount \$150,000

T. I. \$880,000 X 20% = \$176,000

E's §199A Deduction For 2018 \$150,000

EXAMPLE 5 - Married Jt Return - S Corp. Stock - W-2 Wages
- No Qualified Property -T. I. \$375,000

FACTS

2. B Shareholder In S Corp M - Not SSTB

7. **Phase-In Percentage 60%**

$$\begin{array}{r} \$375,000 - \$315,000 = \underline{\$ 60,000} \\ \$100,000 \end{array}$$

	<u>QBI</u>	<u>W-2 Wages</u>
3. Allocated From M	\$300,000	\$40,000
	<u>X 20%</u>	<u>X 50%</u>
	\$ 60,000	\$20,000
If Limit 100% Phased In Tentative §199A Ded. -		\$20,000
Ded. Lost By Limit - \$60,000 - \$20,000		\$40,000
Limit Phased-In 60%		<u>X 60%</u>
Lost Ded Since Only 60% Phased In		<u>\$24,000</u>
Tentative Ded. Amt. (\$60,000 - \$24,000)		\$36,000
T. I. \$375,000 X 20% =		\$75,000
§199A Deduction For 2018		<u>\$36,000</u>

EXAMPLE 6 - Married - S Corp SSTB - W-2 Wages - No Qualified Property - Taxable Income Of \$375,000 - S Corp In Example 5 Now SSTB

FACTS

2. B Shareholder In S Corp M - SSTB

8. Phase-In & Out Percentage 60%

$$\begin{array}{r} \$375,000 - \$315,000 = \underline{\$ 60,000} \\ \$100,000 \end{array}$$

	<u>QBI</u>	<u>W-2 Wages</u>
3. Allocated From M	\$300,000	\$40,000
Qualifying %	<u>X 40%</u>	<u>X 40%</u>
Remaining Amt	\$120,000	\$16,000
	<u>X 20%</u>	<u>X 50%</u>
	\$ 24,000	\$ 8,000

Ded. Lost By Limit \$24,000 - \$8,000 **\$16,000**

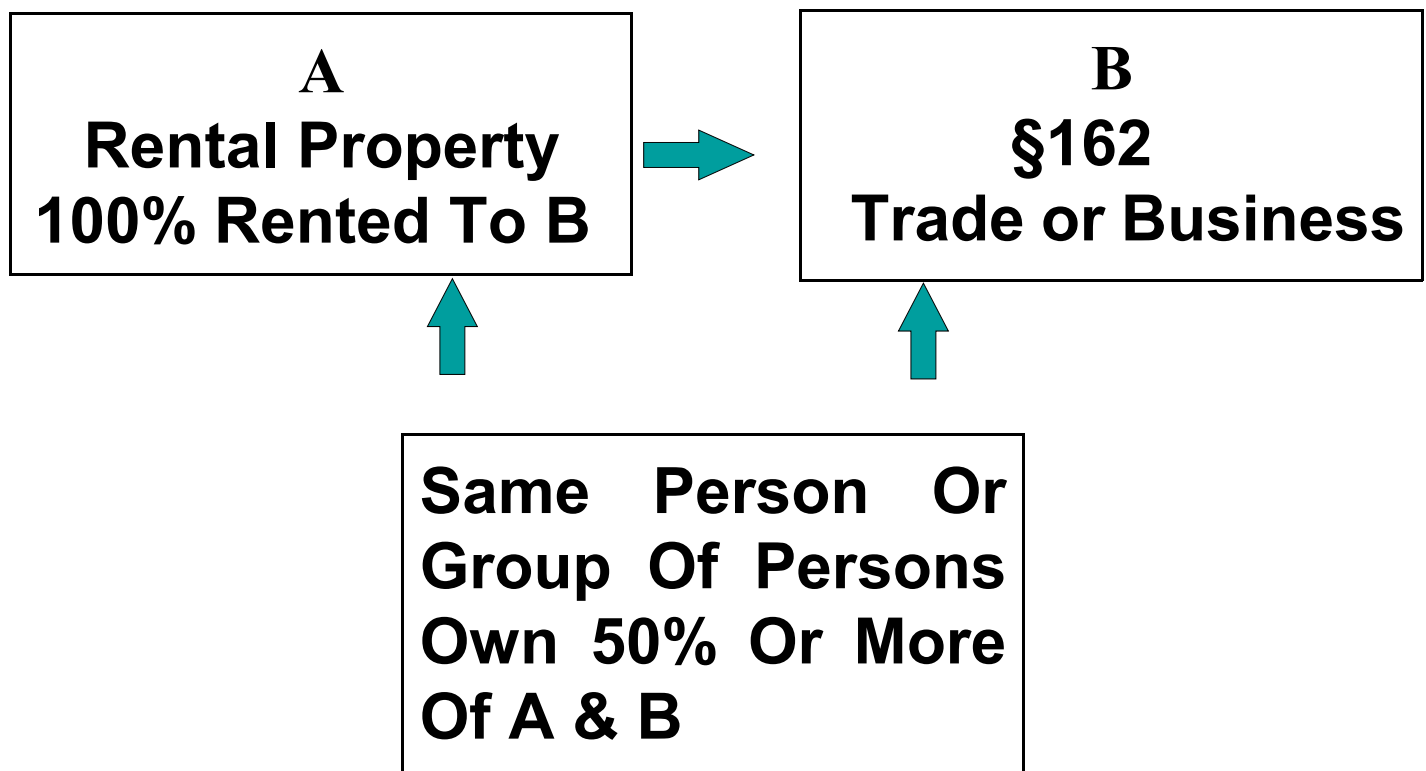
Limit 60% Phased-In X 60%
 Lost Since Only 60% Phased In \$ 9,600

Tentative Ded. Amt. (\$24,000 - \$9,600) **\$14,400**

T. I. \$375,000 X 20% = \$75,000

§199A Deduction For 2018 **\$14,400**

**Special Rules For Rental Or Licensing
Of Property To A Trade Or Business
With 50% Common Ownership.**



Prop Regs. 1.199A-1(b)(13) & 1.199A-4(b)(1)

Individual Treated As Owning Stock Owned By **Spouse** (unless separated under decree of divorce or separate maintenance), **Children, Grandchildren, and Parents.**

14. Planning Pointers - Example 1

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a. W-2 Wages Of 28.572% Of QBI (Before Any Deduction For W-2 Wages) Generates Maximum §199A Deduction.

1. Tim Owns 100% of Tooltime An S Corp. With No Qualified Property
2. **QBI** Before Deduction For Wages - **\$500,000**
3. & 4. **W-2 Wages** **\$ 90,000**
5. Tim and Jill File Jointly With **T. I. of \$415,000**
6. Projected Tentative §199A Ded. - **\$ 45,000**

<u>QBI</u>	<u>W-2 Wages</u>
\$410,000	\$ 90,000
<u>X 20%</u>	<u>X 50%</u>
<u>\$ 82,000</u>	<u>\$ 45,000</u>

QBI Before Wage Deduct.	\$500,000
	<u>X .28572</u>
	\$142,860
Minus Wages Already Paid	<u>\$ 90,000</u>
Additional Wages	<u>\$ 52,860</u>

Example 1 - Continued

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QBI Before Wages	\$500,000
Adjusted Wages	<u>(\$142,860)</u>
Modified QBI	<u>\$357,140</u>

Modified QBI Ded:	<u>QBI</u>	<u>W-2 Wages</u>
	\$357,140	\$142,860
	X 20%	X 50%
	<u>\$ 71,428</u>	<u>\$ 71,430</u>

Tentative §199A Deduction	\$ 71,428
T. I. of \$415,000 X 20% =	\$ 83,000

§199A Deduction For 2018	\$ 71,428
Previous Projected §199A Ded	<u>(\$ 45,000)</u>
Decrease Taxable Income	\$ 26,428
	X .32
Fed. Income Tax Savings	\$ 8,457
Add'l FICA	<u>(\$ 6,794)</u>
Savings	<u>\$ 1,663</u>

$$\mathbf{\$1,663 \div \$52,860 = 3.15\%}$$

EXAMPLE 2

1. Tim Owns 100% of Tooltime An S Corp. With No Qualified Property
2. **QBI** Before Deduction For Wages - **\$1,000,000**
3. & 4. **W-2 Wages** **\$ 180,000**
5. Tim and Jill File Jointly With **T. I. of \$ 800,000**
6. Projected Tentative §199A Ded. - **\$ 90,000**

<u>QBI</u>	<u>W-2 Wages</u>
\$820,000	\$180,000
<u>X 20%</u>	<u>X 50%</u>
<u>\$164,000</u>	<u>\$ 90,000</u>

QBI Before Wage Deduct.	\$1,000,000
	<u>X .28572</u>
	\$ 285,720
Minus Wages Already Paid	<u>\$ 180,000</u>
Additional Wages	<u>\$ 105,720</u>
QBI Before Wages	\$1,000,000
Adjusted Wages	<u>(\$ 285,720)</u>
Modified QBI	<u>\$ 714,280</u>

Example 2 - Continued

Modified QBI Ded:	<u>QBI</u>	<u>W-2 Wages</u>
	\$714,280	\$285,720
	<u>X 20%</u>	<u>X 50%</u>
	<u>\$ 142,856</u>	<u>\$ 142,860</u>
Tentative §199A Deduction		\$ 142,856
T. I. of \$800,000 X 20% =		\$ 160,000
§199A Deduction For 2018		\$ 142,856
Previous Projected §199A Ded		<u>(\$ 90,000)</u>
Decrease Taxable Income		\$ 52,856
		<u>X .37</u>
Fed. Income Tax Savings		\$ 19,557
Add'l FICA		<u>(\$ 2,495)</u>
Savings		<u>\$ 17,062</u>
\$17,062 ÷ \$105,720 = 16.14%		

b. Marginal Tax Rate Effect From Phase-Out Of 20% Deduction For SSTB Where Taxable Income Increases From \$315,000 to \$415,000.

Example.

Joint Return - SSTB Where T. I. & QBI = \$315,000 -

	<u>OBI</u>	<u>T. I.</u>	<u>Tax</u>
	\$315,000	\$315,000	\$64,179
	<u> X 20%</u>		
	<u>\$ 63,000</u>	<u>(\$ 63,000)</u>	<u>(\$15,120)</u>
T. I. - §199A Ded.		<u>\$252,000</u>	<u>\$ 49,059</u>

Joint Return - SSTB

T. I. & QBI = \$415,000 -

	<u>OBI</u>	<u>T. I.</u>	<u>Tax</u>
	\$415,000	\$415,000	\$96,629
	<u> X 0%</u>		
	<u>-0-</u>	<u>\$ -0-</u>	<u>-0-</u>
.	<u>\$415,000</u>	<u>\$415,000</u>	<u>\$96,629</u>

Less Tax When T. I. \$315,000	<u>(\$49,059)</u>
Additional Tax	<u>\$47,570</u>

$$\mathbf{\$47,570 \div \$100,000 = 47.57\%}$$

T/B 1 **T/B 2**

A 98% 1%

B 1% 98%

C 1% 1%

BNA Portfolio 537-1st

Says Considered 50% Common Ownership