Reg. 1.199A-1(c)(3), Example 3

QBI Ded'n, Below Threshold: CQBIA Limit

Married & file
Joint Tax Return

Individual B   Individual C

100%   Wages of $150k

Corp X
(S Corp)

Landscaping services
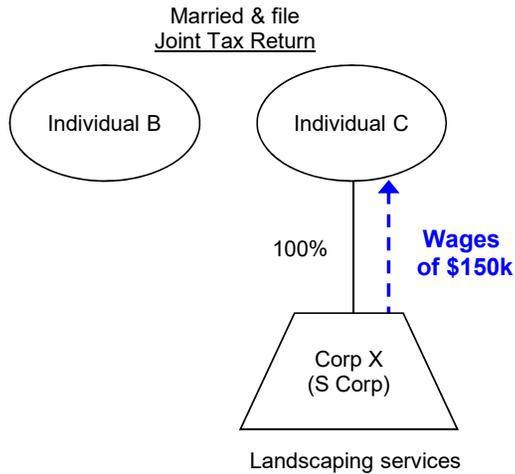
B wages (from unrelated company)	50,000	
C wages (from Corp X)	150,000	
Corp X net taxable income (QBI)	100,000	Sec. 199A(a)(1)(A), (b) (CQBIA Limit = 20% x 100,000 = 20,000)
Net capital gains	0	If below the threshold, the CQBIA Limit equals 20% of QBI, plus 20% of REIT & PTP
Deductions not related to Corp X	(30,000)	
Taxable income (before 199A ded'n)	270,000	
Taxable income over net capital gains	270,000	(TI Limit = 20% x 270,000 = 54,000) Sec. 199A(a)(1)(B),
Sec. 199A deduction	20,000	

(Lesser of CQBIA Limit or TI Limit
(i.e., lesser of red numbers)   Sec. 199A(a)(1)(A) and (B),

B and C are married and file a joint individual income tax return. B earned $50,000 in wages as an employee of an unrelated company in 2018. C owns 100% of the shares of X, an S corporation that provides landscaping services. X generates $100,000 in net income from operations in 2018. X pays C $150,000 in wages in 2018. B and C have no capital gains or losses. After allowable deductions not related to X, B and C's total taxable income for 2018 is $270,000. B's and C's wages are not considered to be income from a trade or business for purposes of the section 199A deduction. Because X is an S corporation, its QBI is determined at the S corporation level. X's QBI is $100,000, the net amount of its qualified items of income, gain, deduction, and loss. The wages paid by X to C are considered to be a qualified item of deduction for purposes of determining X's QBI. The section 199A deduction with respect to X's QBI is then determined by C, X's sole shareholder, and is claimed on the joint return filed by B and C. B and C's section 199A deduction is equal to $20,000, the lesser of 20% of C's QBI from the business ($100,000 x 20% = $20,000) and 20% of B and C's total taxable income for the taxable year ($270,000 x 20% = $54,000).

HUNDREDS of additional charts at www.andrewmitchel.com