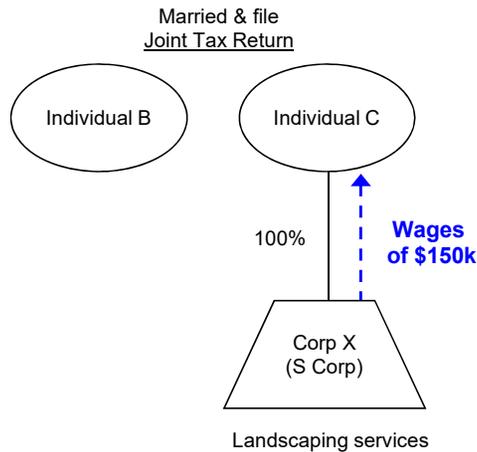


**Reg. 1.199A-1(c)(3), Example 4**

**QBI Ded'n, Below Threshold:  
CQBIA Limit (With REIT & PTP)**

Copyright © 2019 Andrew Mitchel LLC  
International Tax Services  
www.andrewmitchel.com



|   |                |   |
|---|----------------|---|
| 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)<br>(CQBIA Limit = 20% x 101,500 = <b>20,300</b> )               |
| Qualified REIT dividends  | 1,000          |   |
| Qualified PTP income  | 500            |   |
| Net capital gains   | 0              | If below the threshold, the<br>CQBIA Limit equals 20% of<br>QBI, plus 20% of REIT & PTP |
| Deductions not related to Corp X                                    | (30,000)       |   |
| <b>Taxable income (before 199A ded'n)</b>                           | <b>271,500</b> |   |
| <b>Taxable income over net capital gains</b>                        | <b>271,500</b> | (TI Limit = 20% x 271,500 = <b>54,300</b> )   |
| Sec. 199A deduction   | 20,300         | Sec. 199A(a)(1)(B),   |
| (Lesser of CQBIA Limit or TI Limit<br>(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. B also earns \$1,000 in qualified REIT dividends and \$500 in qualified PTP income in 2018.

After allowable deductions not related to X, B and C's total taxable income for 2018 is \$271,500. 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 \$20,300, the lesser of (i) 20% of C's QBI from the business (\$100,000 x 20% = \$20,000) plus 20% of B's combined qualified REIT dividends and qualified PTP income (\$1,500 x 20% = \$300) and (ii) 20% of B and C's total taxable for the taxable year (\$271,500 x 20% = \$54,300).