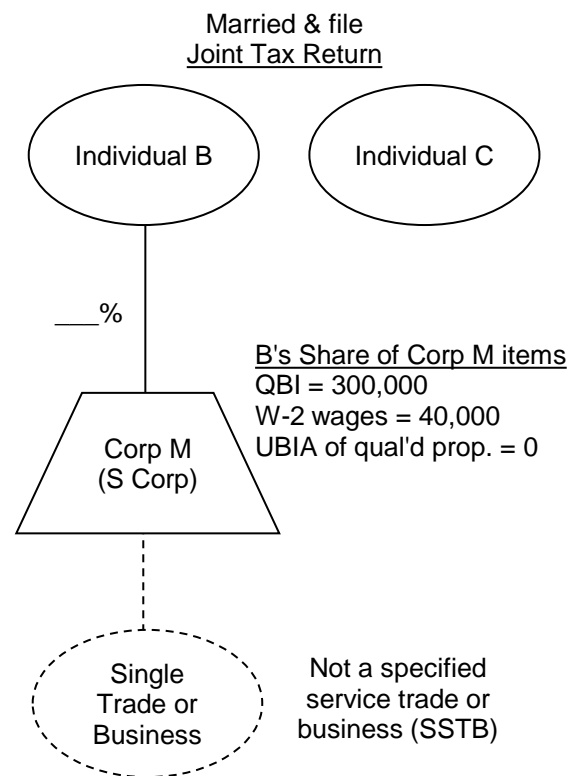


Reg. 1.199A-1(d)(4), Example 5

**QBI Ded'n, Phase-in Range:
20% of QBI > Wages Plus**

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B's portion of QBI from M	300,000	(20% of QBI = 60,000)	Diff. = "Excess Amount" = 40,000 Sec. 199A(b)(3)(iii)
B's portion of W-2 wages	40,000	(50% = 20,000, 25% = 10,000)	
B's portion of UBIA of q. prop.	0	(2.5% of 0 = 0) ("Wages Plus" = 20,000)	
Net capital gains	0	"Wages Plus" equals greater of (i) 50% of wages or (ii) 25% of wages + 2.5% of UBIA of qualified property	
C's wages less deductions not related M	75,000	(QBI Component of CQBIA Limit = 36,000)	Sec. 199A(a)(1)(A), (b)
Taxable income (before 199A ded'n)	375,000	The QBI Component of CQBIA limit is 20% of QBI (60,000) - (60% of the excess amount (40,000)). Sec. 199A(b)(3). Note that the CQBIA limit is more than it would be if the taxpayers' taxable income were below the phase-in range.	
Threshold amount	315,000		
Amount in excess of threshold	60,000	(60,000 / 100,000 = 60% thru phase-in range)	
Taxable income over net capital gains	375,000	(TI Limit = 20% x 375,000 = 75,000)	
Sec. 199A deduction	36,000	Sec. 199A(a)(1)(B),	
		(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 is a shareholder in M, an entity taxed as an S corporation for Federal income tax purposes that conducts a single trade or business. M holds no qualified property. B's share of the M's QBI is \$300,000 in 2018. B's share of the W-2 wages from M in 2018 is \$40,000. C earns wage income from employment by an unrelated company. After allowable deductions unrelated to M, B and C's taxable income for 2018 is \$375,000. B and C are within the phase-in range because their taxable income exceeds the applicable threshold amount, \$315,000, but does not exceed the threshold amount plus \$100,000, or \$415,000. Consequently, the QBI component of B and C's section 199A deduction may be limited by the W-2 wage and UBIA of qualified property limitations but the limitations will be phased in.

Because M does not hold qualified property, only the W-2 wage limitation must be calculated. In order to apply the W-2 wage limitation, B and C must determine 20% of B's share of M's QBI. Twenty percent of B's share of M's QBI of \$300,000 is \$60,000. Next, B and C must determine 50% of B's share of M's W-2 wages. Fifty percent of B's share of M's W-2 wages of \$40,000 is \$20,000. Because 50% of B's share of M's W-2 wages (\$20,000) is less than 20% of B's share of M's QBI (\$60,000), B and C must determine the QBI component of their section 199A deduction by reducing 20% of B's share of M's QBI by the reduction amount.

B and C are 60% through the phase-in range (that is, their taxable income exceeds the threshold amount by \$60,000 and their phase-in range is \$100,000). B and C must determine the excess amount, which is the excess of 20% of B's share of M's QBI, or \$60,000, over 50% of B's share of M's W-2 wages, or \$20,000. Thus, the excess amount is \$40,000. The reduction amount is equal to 60% of the excess amount, or \$24,000. Thus, the QBI component of B and C's section 199A deduction is equal to \$36,000, 20% of B's \$300,000 share M's QBI (that is, \$60,000), reduced by \$24,000. B and C's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$36,000) or (ii) 20% of B and C's taxable income (\$375,000 x 20% = \$75,000). Therefore, B and C's section 199A deduction is \$36,000 for 2018.