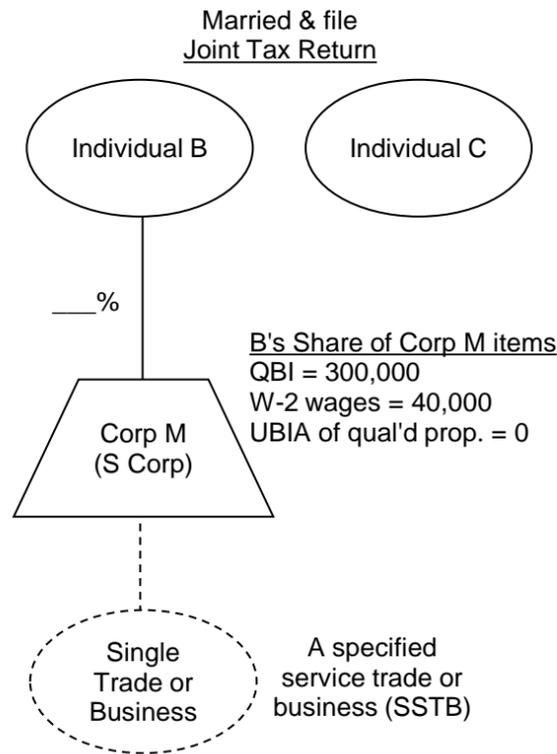


Reg. 1.199A-1(d)(4), Example 6

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

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B's portion of QBI from M	300,000
B's portion of W-2 wages	40,000
B's portion of UBIA of q. prop.	0
Net capital gains	0
C's wages less deductions not related M	75,000
Taxable income (before 199A ded'n)	375,000
Threshold amount	315,000
Amount in excess of threshold	60,000
Taxable income over net capital gains	375,000
Sec. 199A deduction	14,400

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

(40% x 300,000 of QBI = 120,000 (alloc'd QBI), 20% of alloc'd QBI = 24,000)

(40% x 40,000 = 16,000 (alloc'd wages), 50% = 8,000, 25% = 4,000)

(2.5% of 0 = 0)

("Wages Plus" = 8,000)

Diff. = "Excess Amount" = 16,000 Sec. 199A(b)(3)(iii)

"Wages Plus" equals greater of (i) 50% of wages or (ii) 25% of wages + 2.5% of UBIA of qualified property

(QBI Component of CQBIA Limit = 14,400) Sec. 199A(a)(1)(A), (b)

The QBI Component of CQBIA limit is 20% of QBI (24,000) - (60% of the excess amount (16,000)). Sec. 199A(b)(3).

(60,000 / 100,000 = 60% thru phase-in range) (applic. percentage = 100% - 60% = 40%)

(TI Limit = 20% x 375,000 = 75,000) Sec. 199A(a)(1)(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.

M was engaged in an SSTB. Because B and C are within the phase-in range, B must reduce the QBI and W-2 wages allocable to B from M to the applicable percentage of those items. B and C's applicable percentage is 100% reduced by the percentage equal to the ratio that their taxable income for the taxable year (\$375,000) exceeds their threshold amount (\$315,000), or \$60,000, bears to \$100,000. Their applicable percentage is 40%. The applicable percentage of B's QBI is (\$300,000 x 40%) \$120,000, and the applicable percentage of B's share of W-2 wages is (\$40,000 x 40%) \$16,000. These reduced numbers must then be used to determine how B's section 199A deduction is limited.

B and C must apply the W-2 wage limitation by first determining 20% of B's share of M's QBI as limited above. Twenty percent of B's share of M's QBI of \$120,000 is \$24,000. 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 \$16,000 is \$8,000. Because 50% of B's share of M's W-2 wages (\$8,000) is less than 20% of B's share of M's QBI (\$24,000), B and C's 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 as adjusted, or \$24,000, over 50% of B's share of M's W-2 wages, as adjusted, or \$8,000. Thus, the excess amount is \$16,000. The reduction amount is equal to 60% of the excess amount or \$9,600. Thus, the QBI component of B and C's section 199A deduction is equal to \$14,400, 20% of B's share M's QBI of \$24,000, reduced by \$9,600. B and C's section 199A deduction is equal to the lesser of (i) 20% of the QBI from the business as limited (\$14,400) or 20% of B's and C's taxable income (\$375,000 x 20% = \$75,000). Therefore, B and C's section 199A deduction is \$14,400 for 2018.