

## HW Hot Topics Article 2018-03 “QBID” – A Summary

HW Hot Topics articles are brief summaries of a topic, for clients to gain a general understanding. We intend for the information to answer the “quick questions” and to advance the dialog when we provide further analysis and planning.

**QBID** is the acronym for Qualified Business Income Deduction, new to the U.S. Tax Code in the 2017 Tax Cuts and Jobs Act (TCJA). It replaces the Domestic Production Activities Deduction, which was 9%. The QBID is computed at 20% instead of 9%, on taxable income of the business.

**Who gets QBID** - The individual owning a business or “passthrough” interest in a business operating in the USA. The entity type might be proprietorship, partnership, LLC, S corporation and some others.

For example, a farmer earning \$100,000 in the business gets a \$20,000 QBID deduction.

**Who does not get QBID** – Corporations (C corporations). And, individuals earning wages or similar compensation. That is not a “trade or business”, but is employment.

**Why do “C” corporations not get QBID** – They get the new 21% tax rate.

**Who else does not get QBID** – Owners of **SSTBs**, Specified Services Trades or Businesses. However, they may get it. See Phaseout summary below. In general, SSTBs are the professions of health, law, accounting, financial services, performing arts, athletics, consulting and the like.

**Phaseout and limitations** – QBID for SSTBS is reduced by phaseout in the taxable income range shown below. The deduction is reduced from 20% to a lesser amount, and to zero at the full phaseout level.

QBID for other businesses is made subject to the Wage/Capital limitations, which are phased in. That may or may not matter in the actual deduction. If the Wage/Capital limitations apply in full, the result may be the full 20% deduction anyway.

<u>Phaseouts</u>	<u>Starting at</u>	<u>In full at</u>
Single person	157,500	207,500
Married filing jointly	315,000	415,000
Qualified Businesses except SSTBs	Limitations phased in	
SSTBs	Deduction phased out	

<u>Wage/Capital Limitations</u>
Greater of two computations:
1. 50% of W-2 wages paid by the business
2. 25% of W-2 wages plus 2.5% of "Capital"
Capital for this test is a computation using the cost of depreciable property used in the business.
The result of the limitation may be - a) the full 20%, b) <u>a limited amount</u> , or c) no deduction.