



CHANGE IN TAX CODE BENEFITS BUSINESS OWNERS

The 2017 Tax Cuts and Jobs Act (TCJA) changed the tax codes, decreasing corporate tax rates. Sole Proprietors and single-owner LLCs felt they should receive the same break.

The government agreed and implemented the Qualified Business Income deduction (the QBI deduction, pass-through deduction, or section 199A deduction) as part of the TCJA. This deduction applies to Business Owners who report their Schedule C business income on a 1040 Personal Tax Return.

The QBI deduction is in effect for tax years 2018 through 2025. After that, it may “sunset” – thus, check back to see if it is renewed.

CALCULATION OF THE QUALIFIED BUSINESS INCOME (QBI) CREDIT

For most business owners, the deduction equals 20% of their “qualified” business taxable income. The trick is to understand how to calculate “Qualified Income” (see below)

LIMITATION ON CREDIT FOR HIGH EARNERS

However, high earners and those in specific industries may not be allowed the QBI or may have a reduced QBI - so it is essential to check the instructions.

<https://www.irs.gov/pub/irs-dft/i8995--dft.pdf>

QBI LIMITATIONS APPLY if

Tax Year	Marital Status	Deduction begins to phase out at income level	No deduction allowed if income exceeds
2023	Single	\$ 182,100	\$ 232,100
2023	Married filing Jointly	\$ 364,200	\$ 464,200
2024	Single filer	\$ 191,951	\$ 241,950
2024	Married filing Jointly	\$ 383,901	\$ 483,900

FORM 8895 MUST BE ATTACHED TO CLAIM CREDIT

Business Owners wanting to claim the credit must complete form 8895.

The form asks on Line 1 to insert the Qualified Business Net Profit.

The trick is to understand what they mean by “Qualified.”

MONEY 101 EDUCATION

6.36a Understanding QBI and EXERCISE CALCULATE MARIA'S QBI

As it turns out, "Qualified" is calculated by taking the Schedule C line 31 Business Net Profit and subtracting the deductible portion of the self-employment tax (Schedule SE line 13). Unfortunately, that is NOT clearly explained on the tax form.

In Maria's case, the QUALIFIED business income is calculated as follows:

Schedule C Line 31	Business Net Profit	\$ 6,848
LESS Schedule SE Line 13	Deductible Portion of Self Employment Tax	\$ 484
QUALIFIED BUSINESS NET INCOME		\$6,364

EXERCISE

Bearing in mind what is Qualified Income:

1. Complete Maria's Schedule 8895 – Qualified Business Income deduction.
2. Transfer the QBI to form 1040 page 1, Line 13