

MONEY 101 EDUCATION

6.36a Understanding the QUALIFIED BUSINESS INCOME (QBI) deduction and EXERCISE to CALCULATE MARIA'S QBI

BACKGROUND

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 (also called 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 to see if it is renewed.

CALCULATION OF THE QUALIFIED BUSINESS INCOME (QBI) deduction

To claim the QBI deduction, business owners must attach Schedule 8895 to their 1040 income tax return.

On Line 1 of Schedule 8895, the business owner must insert their “Qualified Business Net Profit.” The trick is to understand how to calculate “Qualified Income.”

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, the tax form does not clearly explain this.

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 – enter on line 1 of form 8895		\$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 (for tax year 2024)

(See next page for limitations)

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NOTE - SPECIAL LIMITATION ON QBI FOR HIGH EARNERS

QBI may not be available to high earners and those in specific industries – or in some cases, only a portion of the credit is allowed.

It is, therefore, essential to check the current year's instructions to verify the income limits.

<https://www.irs.gov/instructions/i8995>

FOR TAX YEAR 2024 - QBI LIMITATIONS APPLY if

Tax Year	Marital Status	Deduction begins to phase out at income level	No deduction allowed if income exceeds
<i>2024</i>	<i>Single filer</i>	<i>\$ 191,951</i>	<i>\$ 241,950</i>
<i>2024</i>	<i>Married filing Jointly</i>	<i>\$ 383,901</i>	<i>\$ 483,900</i>