

TaxMama's[®] Tax Update

2022-2023

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Addendum to TaxMama's[®] Tax Update for 2022-2023

Special Handout: Sec 199A – 20% Deduction for Qualified Small Business Income

Sec 199A – Qualified Small Business Income

This deduction applies to Sole proprietorships, S corporations, Partnerships, Trusts, Estates. (This includes publicly traded partnerships and REITS)

This is a special deduction worth, essentially, 20% of the profits of qualifying businesses (with some adjustments)

What are the qualifications for a Sec 199A business – and what are the parameters of the deduction?

- The business must be an operating business (Sec 162) or certain rental real estate – eligibility determined at the entity level.
- Rentals qualify for the QBID if:
 - The rental rises to the level of a section 162 trade or business, or
 - The rental real estate enterprise meets the safe harbor in Notice 2019-07, or
 - The rental or licensing of property is to a commonly controlled trade or business operated by an individual or pass-through entity – Sometimes referred to as self-rental.

Specified (or Specific) Service Trades or Business (SSTB)

Services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets or any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners.

Additional/Alternative Computation

For those businesses with income in excess of the SSTB limits,

- 20% of QBI or the greater of
- 50% of the W-2 wages paid by the business;

or

- The sum of: 25% of the W-2 wages paid by the business; plus 2.5% of the unadjusted basis immediately after acquisition of depreciable property.

QBI Adjustments

QBI Does Not Include:

- Items that are not properly includable in taxable income
- Investment items such as capital gains or losses or dividends
- Interest income not properly allocable to a trade or business
- Wage income
- Income that is not effectively connected with the conduct of a business within the United States

QBI is reduced by:

- Any deductions attributable to the trade or business including, but not limited to, the deductible portion of:
 - Self-employment tax,
 - Self-employed health insurance,
 - Contributions to qualified retirement plans,
 - Deductible unreimbursed partnership expenses, and
 - Business interest allocable to S corporation or partnership, deducted on Schedule E.

Sec 199A Rules When Filing Forms 1065/1120S K-1s

The K-1 must provide clear detail about activities and numbers related to the 20% Qualified Business Income Deduction (QBI) or it will be considered an incomplete return, subject to penalties.

Partnerships - Enter all data required on line 20 using **code Z**

<https://www.irs.gov/pub/irs-pdf/i1065.pdf#page=47>

S Corps - Enter all data required on line 17 using **code V**

<https://www.irs.gov/pub/irs-pdf/i1120ssk.pdf#page=15>

Report the following information on the respective K-1s

- Qualified items of income, gain, deduction, and loss;
- W-2 wages;
- Unadjusted basis immediately after acquisition (UBIA) of qualified property;
- Qualified publicly traded partnership (PTP) items;
- Section 199A dividends, also known as qualified real estate investment trust (REIT) dividends.