Qualified Business Income Deduction
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One major tax law change that occurred from the 2017 Tax Cut and Jobs Act, every taxpayer should be aware of, is IRC Section 199A, also known as the *Qualified Business Income Deduction*. This code section allows sole proprietors, disregarded entities and owners in S Corporations and Partnerships to receive a 20% deduction on their Schedule C Income from a business or pass-through income.

This tax law change can have a huge effect on how much taxes you may pay on your personal tax return.

For example, if your pass-through income were $100,000, you would only pay tax on $80,000. That reduction in taxable income of $20,000 can save you up to $7,400 in taxes in this example, depending on what tax bracket you are in.

The Section 199A deduction is not phased out based on the amount of pass-through or Schedule C income, however it may be reduced or eliminated based the individual's adjusted gross income. If the pass-through income comes from a company that is a specialized service, then the 199A deduction will phase out. For Tax Year 2019, if the individual's gross income is more than $160,700 if you are single and $321,400 if you are married, the 199A reduction starts to phase out. Once you reach $210,700 if you are single or $421,400 if you are married, it completely phases out.

The following types of companies are considered specialized services:

1. Health
2. Law
3. Accounting
4. Actuarial services
5. Performing Arts
6. Consulting
7. Athletics
8. Financial Services

9. Brokerage services
10. Investing and Investment Management
11. Trading
12. Dealing in Securities
13. Any trade or business where the principal asset is the reputation or skill of one or more of its owners or employees.

Each of these has detailed descriptions of what they include. Some of these services can be subject to interpretation, especially numbers 6 and 13.

If your business does not fall under these services but your income exceeds the above thresholds, then your Section 199A deduction is limited to 50% of your company's W-2 income or 25% or your company's W-2 income plus 2.5% of unadjusted basis immediately after acquisition of qualified property held by the trade or business.

Below are some planning tips to avoid having your Section 199A deduction reduced or phased out.

If your business is not a specialized service, you should make sure your company is taking enough W-2 wages so your Section 199A deduction is not limited.

If your business is a specialized service, you should first confirm this. For example, an insurance broker does not fall under a specialized service, even though brokerage services is on the list of specialized services.

You may want to consider bifurcating your company's income or setting up a new company, if only part of your company's income is a specialized service. If your business is a specialized service you may want to consider forming a C-corporation and allocating a portion of your specialized service income, so this income does not flow-through to your individual return and increase your adjusted gross income. If you are planning to get married, do it before the end of the year and your limitation threshold doubles a year earlier.