

Tax Provision	New Law
Deduction for Qualified Business Income (Pass-Through Entity Deduction)	<p>Effective 2018. An individual taxpayer generally may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20% of aggregate qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income. In the case of a partnership or S corporation, the deduction applies at the partner or shareholder level. Special rules apply to specified agricultural or horticultural cooperatives.</p> <p>A limitation based on W-2 wages and capital is phased in when the taxpayer's taxable income exceeds a \$157,500 (\$315,000 MFJ) threshold amount. A disallowance of the deduction with respect to specified service trades or businesses is also phased in when taxable income exceeds the threshold amount. These limitations are phased-in if taxable income exceeds the threshold amount but is below \$207,500 (\$415,000 MFJ) (the phase-in range). For purposes of this provision, taxable income is computed without regard to the 20% deduction.</p> <p>Qualified business income means the net amount of qualified items of income, gain, deduction, and loss with respect to a domestic qualified trade or business of the taxpayer. Qualified business income does not include specified investment-related items of income, deductions, or loss (dividends, interest, long-term capital gains and losses, annuities).</p> <p>Qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer. Similarly, qualified business income does not include a reasonable amount of guaranteed payments for services rendered by a partner.</p> <p>A qualified trade or business means any trade or business other than a specified service trade or business, and other than the trade or business of being an employee. A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management trading, or dealing in securities, partnership interests, or commodities. The specified service trade or business exclusion from the definition of a qualified trade or business is phased-in for taxpayers that exceed the threshold amount. It does not apply to taxpayers below the threshold amount.</p> <p>These new provisions expire after 2025.</p>