Qualified Business Income (QBI) Deduction

The Tax Cuts and JOBS Act created a new business deduction that has the potential to save some business owners thousands of dollars in taxes each year. Unlike typical business write offs, this new deduction gives you something for nothing because you do not have to purchase anything or spend any money to get it. Let us take a closer look at how it works.

The new deduction goes by many different names. All the following names mean the same thing. For the purpose of this Fact sheet, we will call it the QB I deduction.

- The pass-through business income deduction.
- The Section 199 A deduction.
- The qualified business income deduction.
- The qualified business income deduction.

Who gets to take this deduction?

Profitable business owners, excluding C Corporations with taxable income under $364,200. (Married filing jointly.) And $182,100. (Single.) We will get the deduction. These thresholds are for the tax year 2023. If you make more than that, it gets complicated. So, let us focus on these limits first.

How big is the deduction?

Taxpayers below these income thresholds will generally get to deduct the lesser of;

1. 20% of qualified business income or
2. 20% of taxable income minus capital gains.

What is QBI?

QBI is closely related to profits. If your business is profitable, you will likely have QBI. There are some exceptions. For example, business owners with high mileage or depreciation deductions might be profitable but not have QB I.

Example:

Paul is a single consultant with $75,000 in Q BI and no capital gains. His taxable income is $55,000. His deduction is 20% of 55,000, or $11,000. This saves him over $2400 in tax.

In the above example, Paul could have gotten a bigger deduction if his taxable income were higher. For example, he could have taken a side job or married a spouse with adequate wages to increase his taxable income and thus get a larger QB I deduction. However, Paul would not want his taxable income to get too high. That is because the rules are less favorable if your Taxable income Is above $182,100 if single or $364,200 if married filing jointly. Above these levels, it matters what type of business you own. For example, service businesses. Such as health law, accounting, performers, consulting, athletes, financial services, plus others see their deduction begin to phase out above those income thresholds. Those taxpayers may want to contribute more to their retirement accounts, if possible, or buy more expensive business equipment to reduce their taxable income to then qualify for the deduction.

Businesses that are not service, such as manufacturing, retail and others, can have taxable income above these levels and still get the deduction. However. Their deduction is limited by other factors, such as total wages paid to employees and the value of certain business assets.

Amazingly, this only scratches the surface of the QB I deduction. For example, dividends from certain real estate investment trusts and income from certain publicly traded partnerships also count for the deduction.

Terri's Tax & Notary llc

In summary, the QB I deduction rules are favorable but complex, so ask for help to optimize your tax savings.

Terri's Tax & Notary llc