

Example #3: A married self-employed Plumber with his wife working as a salaried Dental Hygienist
The Plumber has (4) employees and pays \$150,000 in W-2 wages to the (4) apprentice plumbers
The Plumber is not considered a Specified Service Trade or Business (SSTB)
Plumber has \$450,000 of Qualified Business Income with \$200,000 of unadjusted business assets
Their combined Married Filing Jointly Taxable Income is \$525,000 with \$23,000 of capital gains
Their combined Taxable income is **Above** the income phase-out ranges for a MFJ couple
The phase-out range for a married couple is between \$315,000 and \$415,000
Their QBI deduction can be limited by the Taxable Income Limitation
Their QBI deduction can be limited by the full W-2 Wage & Capital Limitation

When a self-employed non SSTB business owner has qualified net business income **Above** the phase-out level there are two additional restrictions on that Normal QBI deduction.

- 1) the Taxable Income Limitation
- 2) the full Wage & Capital Limitation

Step #1: calculate the 20% Normal QBI deduction on the Qualified Business Income

Step #2: calculate the 20% Taxable Income Limitation

Step #3: calculate the 50% of Wages Limitation

Step #4: calculate 25% of Wage and 2.5% of Unadjusted Basis of Qualified Property Limitation

Step #5: use the greater of the (50% Wages) or (25% Wages + 2.5% of Property) calculations

Step #6: the line 9 QBI deduction on the form 1040 is the lesser of these (3) calculated values

- the 20% Normal QBI deduction
- the 20% Taxable Income Limitation
- the full Wage & Capital Limitation

The Plumber had \$450,000 of Qualified Business Income with (4) apprentice plumbers as employees.
The plumbing business paid \$150,000 in salaries and has \$200,000 of business assets (4 pickup trucks & tools)

1. The potential Normal 20% QBI deduction would be $(\$450,000 * 20\%) = \underline{\$90,000}$
2. The combined taxable income with his wife is \$525,000 including \$23,000 of capital gain income
3. Their combined taxable income is **above** the phaseout range of \$315,000 to \$415,000 for the MFJ status.
4. The Taxable Income Limitation is $[20\% * (\$525,000 \text{ minus } \$23,000)] = \underline{\$100,400}$
5. The full Wage & Capital Limitation is the greater of:
 1. 50% of the Wages $(\$150,000 * 50\%) = \underline{\$75,000}$
 2. 25% of the wages $(\$37,500) + 2.5\%$ of the Unadjusted Basis in the Business Property $(\$200,000 * 2.5\% = \$5,000)$. $(\$37,500 + \$5,000) = \underline{\$42,500}$
 3. Use the greater value of the 50% of the Wages limitation of \$75,000
6. The normal QBI deduction is \$90,000.
7. The full Wage & Capital Limitation is \$75,000
8. The Taxable Income Limitation is = \$100,400
9. Therefore the Final QBI Deduction is the lesser value of \$75,000 to be shown on line 9 of the new 1040 form

Note for a Specified Service Trade or Business (SSTB):

If the business is an (SSTB) and the Taxable Income is **Above** the top of the income phase-out level, that (SSTB) is no longer eligible for any QBI deduction. For example, for a Married Filing Jointly couple above the \$415,000
A married self-employed Accountant whose spouse works a high-earner salary job
If their combined Taxable Income is above \$415,000, the Accountant would receive no QBI deduction.