Example #5: A married self-employed Accountant with her husband having a salary job as a junior Stock Broker
The Accountant has (2) employees and pays $100,000 in W-2 wages
The Accountant is considered a Specified Service Trade or Business (SSTB)
Accountant has $295,000 Qualified Business Income w/ $75,000 of unadjusted business assets
Their combined Married Filing Jointly Taxable Income is $355,000 with $28,000 of qualified dividends from the Husband's brokerage stock
Their combined income is **Between** 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 will be impacted by the Applicable Percentage value of the:

- Qualified Business Income
- Wages
- UBIA (Unadjusted Basis Immediately after Acquisition) in the business property

These (3) reduced values are then called the "Includible" values
The Normal QBI deduction will be limited by the Ratable Phase-In of the Wage & Capital Limitation

When a self-employed SSTB business owner has Taxable income **Between** the phase-out levels there are three additional restrictions on that Normal QBI deduction.

1) the Taxable Income Limitation
2) the Applicable Percentage reduction of the QBI income, the Wages, and the UBIA assets which then create the (3) "Includible" values to be used in the Wage and Capital Limitation
3) the Ratable Phase-In of the Wage & Capital Limitation
   a) The Normal QBI Deduction is reduced by a pro-rated value of the difference between:
   b) The higher Normal QBI Deduction and the lower Wage & Capital Limitation

Step #1: calculate the Applicable Percentage
Step #2: multiply these (3) values by Applicable Percentage to create the "Includible" values:

- Qualified Business Income
- Wages
- UBIA (Unadjusted Basis Immediately after Acquisition) in the business property

Step #3: calculate the Reduction Ratio value
Step #4: calculate the 20% Normal QBI deduction on the "Includible" Qualified Business Income
Step #5: calculate the 50% of "Includible" Wages Limitation
Step #6: calculate 25% of "Includible" Wages + 2.5% of "Includible" UBIA Limitation
Step #7: use the higher of the 50% Wages or (25% Wages + 2.5% UBIA)
Step #8: determined the Excess Amount
The difference between the Normal 20% QBI & the Wage & Capital Limitation
Step #9: multiply the Excess Amount by the Reduction Ratio value = final Excess Amount
Step #10: reduce the Normal QBI deduction by this final Excess Amount

- the final QBI deduction is the "Includible" Normal 20% QBI minus this Excess Amount

Step #11: the line 9 QBI deduction is the lesser of the this value or the Taxable Income Limitation

If a Married Filing Jointly SSTB business owner has Taxable Income **ABOVE** the upper phase-out level of $415,000 - they get none of the QBI deduction.

If a Married Filing Jointly SSTB business owner has Taxable Income **BELOW** the lower phase-out level of $315,000 - they get the full QBI deduction.

If a Married Filing Jointly SSTB business owner has Taxable Income **BETWEEN** the lower/upper phase-out levels of $315,000 to $415,000 - they get a partial, pro-rated QBI deduction.

The Accountant had $295,000 of Qualified Business Income with (2) employees.
The accounting business paid $100,000 in salaries and has $75,000 of business assets (furniture + computers)

- The potential Normal 20% QBI deduction would be ($295,000 * 20%) = $59,000
- The combined taxable income with her husband is $355,000 including $28,000 of qualified dividend income
- Their combined taxable income is **Between** the phaseout range of $315,000 to $415,000 for the MFJ status.
- The Taxable Income Limitation is [20% * ($355,000 minus $28,000)] = **$65,400**

1. The Applicable Percentage is calculated as follows:
   ($355,000 - $315,000) / $100,000 = 0.40 or 40%
   100% - 40% = **60%** Applicable Percentage value
2. Multiply the (3) values below by this 60% Applicable Percentage value to determine "Includible" values
   1. QBI Income of $295,000 * 0.60 = $177,000
   2. Wages of $100,000 * 0.60 = $60,000
   3. UBIA of $75,000 * 0.60 = $45,000
3. The Reduction Ratio value is calculated as follows:
   1. ($355,000 minus $315,000) = $40,000
   2. ($40,000 / $100,000) = **40%** is the Reduction Ratio value
4. The reduced "Includible" QBI income of $177,000 * 20% = **$35,400** gives the 20% Normal QBI Deduction
5. The reduced "Includible" Wages of $60,000 * 50% = $30,000
6. (The reduced "Includible" Wages of $60,000 * 25% = $15,000) + (the reduced "Includible" UBIA of $45,000 * 2.5% = $1,125) = $16,125
7. The Wage & Capital Limitation is the greater of:
   1. 50% of the "Includible" Wages = $30,000
   2. 25% of the "Includible" Wages + 2.5% of the "Includible" UBIA Property = $16,125
   3. Use the greater value of the 50% of the Wages limitation of **$30,000**
8. The "Excess Amount" between the two values listed below is **$5,400**
   1. ($35,400 minus $30,000) = $5,400
   2. The "Includible" Normal QBI deduction is $35,400.
   3. The "Includible" Wage & Capital Limitation is $30,000
9. The Reduction Ratio multiplied by this "Excess Amount" value is then ($5,400 * 40%) = **$2,160**
   1. The "Excess Amount" of $5,400 is multiplied by the Reduction Ratio of 40%
   2. This is the Excess Amount
10. The "Includible" 20% Normal QBI deduction of $35,400 minus the $2,160 Excess Amount gives the final QBI Deduction of **$33,240**
11. The Taxable Income Limitation is = $65,400
12. Therefore the Final QBI Deduction is the lesser value of **$33,240** to be shown on line 9 of the new 1040 form

The point to remember is the Normal QBI deduction is not allowed for an SSTB business owner, when her Taxable Income is **above** the income phase-out levels.
$315,000 to $415,000 for a Married Filing Jointly couple
$157,500 to $207,500 for an Unmarried taxpayer

The full Normal QBI deduction IS ALLOWED for an SSTB business owner when her Taxable Income is **below** the lower income value of the phase-out levels

The "pro-rated" Normal QBI Deduction IS USED for an SSTB business owner when her Taxable Income is **between** the lower and upper income phase-out levels.