

WHAT IS THE 20% SMALL BUSINESS DEDUCTION (SECTION 199A)?

DISCLAIMER:

These slides are meant for informational purposes only.

They should not be relied upon as tax advice.

2017 Tax Relief Overview (2023 figures)

ISSUE	PROVISION
Corporate Taxes	Rates consolidated to 21%; corporate AMT repealed*
Section 179 Expensing	Raised from \$500,000 to \$1.16 million per year, indexed*
Bonus Depreciation	100% bonus depreciation of business property through 2022; 80% in 2023; 60% in 2024; 40% in 2025; 20% in 2026
Cash Accounting Method Eligibility	Expanded to \$29 million gross receipts*
Individual Tax Rates	Reduces individual rates for many taxpayers: 37%, 35%, 32%, 24%, 22%, 12%, 10%, and 0% until 2026
Standard Deduction	Roughly doubled to \$12,950 individual / \$25,900 joint, indexed, until 2026
Alternative Minimum Tax for Individuals	Applies only above \$539,900 individual / \$1,079,800 million joint, indexed, until 2026
Estate Tax Relief	Excludes \$12,920,000 million individual / \$25,840,000 million joint, indexed, until 2026

Individual Tax Rate Changes

2017			2023		
Rate	Single	Joint	Rate	Single	Joint
10%	\$9,325	\$18,650	10%	\$11,000	\$22,000
15%	\$37,950	\$75,900	12%	\$44,725	\$89,450
25%	\$91,900	\$153,100	22%	\$95,375	\$190,750
28%	\$191,650	\$233,350	24%	\$182,100	\$364,200
33%	\$416,700	\$416,700	32%	\$231,250	\$462,500
35%	\$418,400	\$470,700	35%	\$578,125	\$693,750
39.6%	>\$418,400	>\$470,700	37%	>\$578,125	>\$693,750

20% Small Business Deduction, Section 199A

Businesses organized as S-Corporations, sole-proprietors, LLCs, and partnerships can deduct up to 20% of QBI.

Individual
Filer

- Eligible for full 20% deduction if business income is under \$182,100

Joint Filer

- Eligible for full 20% deduction if business income is under \$364,200

What is Qualified Business Income (QBI)?

- Net amount of qualified items of income, gain, deduction, and loss from any qualified trade or business
- Only items counted as taxable income are included:
 - ✓ Includes: Deductions attributable to business – self-employment income and health insurance, as well as retirement plan contributions
 - ✗ Does not include: Capital gains and losses, certain dividends and interest income not related to the business, wage income

Do all businesses qualify for this deduction?

Is the business a Specified Service Trade or Business (SSTB)?

- Trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services.

What happens when a SSTB exceeds the thresholds?

- If the business is considered a SSTB, the deduction phases out at \$232,100 individual / \$464,200 joint for tax year 2023.

What about other businesses above the thresholds?

For businesses above the earlier thresholds (\$182,100 / \$364,200) and are NOT considered SSTBs, additional considerations come into play.



The deduction is limited to 50% of W-2 wages paid by the business OR 25% of W-2 wages plus 2.5% of capital expenditures (up to 20% of QBI).

How about multiple businesses?

To aggregate your businesses, you must own at least 50% of each trade or business and satisfy two of the listed criteria:

- (1) the businesses provide products, property, or services that are the same or usually offered together.
- (2) the businesses share facilities or share significant centralized business elements (for example: common personnel, accounting, legal, manufacturing, purchasing, human resources, or IT resources).
- (3) the businesses are operated in coordination with, or reliance on, other businesses in the aggregated group (for example: supply chain interdependencies).

Review Line 13 on Form 1040

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1957 Are blind **Spouse:** Was born before January 2, 1957 Is blind

Dependents (see instructions):

If more than four dependents, see instructions and check here <input type="checkbox"/>	(1) First name		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions):	
	Last name				Child tax credit	Credit for other dependents
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>
					<input type="checkbox"/>	<input type="checkbox"/>

Attach Sch. B if required.

Standard Deduction for—

- Single or Married filing separately, \$12,550
- Married filing jointly or Qualifying widow(er), \$25,100
- Head of household, \$18,800
- If you checked any box under Standard Deduction, see instructions.

1 Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a Tax-exempt interest	2a
3a Qualified dividends	3a
4a IRA distributions	4a
5a Pensions and annuities	5a
6a Social security benefits	6a
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	7
8 Other income from Schedule 1, line 10	8
9 Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income ▶	9
10 Adjustments to income from Schedule 1, line 26	10
11 Subtract line 10 from line 9. This is your adjusted gross income ▶	11
12a Standard deduction or itemized deductions (from Schedule A)	12a
b Charitable contributions if you take the standard deduction (see instructions)	12b
c Add lines 12a and 12b	12c
13 Qualified business income deduction from Form 8995 or Form 8995-A	13
14 Add lines 12c and 13	14
15 Taxable income. Subtract line 14 from line 11. If zero or less, enter -0-	15



NFIB's Tax Goals – Permanency of 20% SBD

- Advocate for permanency of the 20% Small Business Deduction.
- Reps. Lloyd Smucker (R-MO) and Henry Cuellar (D-TX) and Sen. Steve Daines (R-MT) introduced the *Main Street Tax Certainty Act* (H.R. 4721 / S. 1706) to make the 20% Small Business Deduction permanent.



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