

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

***DISCLAIMER:***

***These slides are meant for informational purposes only.***

***They should not be relied upon as tax advice.***

# Tax Relief Overview

<b>ISSUE</b>	<b>PROVISION</b>
<b>Corporate Taxes</b>	Rates consolidated to 21%; corporate AMT repealed
<b>Section 179 Expensing</b>	Raised from \$500,000 to \$1 million per year, indexed
<b>Bonus Depreciation</b>	100% bonus depreciation of business property; phases out by 2024
<b>Cash Accounting Method Eligibility</b>	Expanded to \$25 million gross receipts
<b>Individual Tax Rates</b>	Reduces individual rates for many taxpayers: 37%, 35%, 32%, 24%, 22%, 12%, 10%, and 0% until 2026
<b>Standard Deduction</b>	Roughly doubled to \$12,000 individual/\$24,000 joint, indexed, until 2026
<b>Alternative Minimum Tax for Individuals</b>	Applies only above \$500,000 individual/\$1 million joint, indexed, until 2026
<b>Estate Tax Relief</b>	Excludes roughly \$11 million individual/\$22 million joint, indexed, until 2026

## Notable Business Provisions

- Entertainment, amusement, or recreation expenses are no longer deductible.
- Business owners can continue to deduct 50% of the cost of business meals if the business owner (or an employee of the business owner) is present and the food or beverages are not considered lavish or extravagant.

**X GONE:** transportation fringe benefits; misc. itemization; tax prep; moving expenses; full deduction of State and Local Taxes (SALT) – now capped at \$10,000 aggregated property and income.

**✓ STAYS:** office holiday parties; home office; charitable giving

**+ NEW:** Eliminates limits on personal deductions



# Individual Tax Rate Changes

2017			2018		
Rate	Single	Joint	Rate	Single	Joint
<b>10%</b>	\$9,325	\$18,650	<b>10%</b>	\$9,525	\$19,050
<b>15%</b>	\$37,950	\$75,900	<b>12%</b>	\$38,700	\$77,400
<b>25%</b>	\$91,900	\$153,100	<b>22%</b>	\$82,500	\$165,000
<b>28%</b>	\$191,650	\$233,350	<b>24%</b>	\$157,500	\$315,000
<b>33%</b>	\$416,700	\$416,700	<b>32%</b>	\$200,000	\$400,000
<b>35%</b>	\$418,400	\$470,700	<b>35%</b>	\$500,000	\$600,000
<b>39.6%</b>	>\$418,400	>\$470,700	<b>37%</b>	>\$500,000	>\$600,000



# 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

# Small Business Deduction, Section 199A

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

Individual

- Eligible for full 20% deduction if business income is under \$157,500

Joint

- Eligible for full 20% deduction if business income is under \$315,000



# 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 \$207,500 individual/\$415,000 joint.

## What about other businesses above the thresholds?

For businesses above the earlier thresholds (\$157,500/\$315,000) and are NOT considered SSTBs, additional considerations come into play.



The deduction is limited to 50% of W-2 wages paid by the business.

## How about multiple businesses?

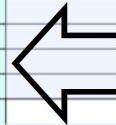
To aggregate your businesses, you must own at least 50 percent of each trade or business and satisfy two of the listed criteria:

- (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).

# Remember to review Line Nine on 1040

Form 1040 (2018) Page **2**

		<b>1</b>	Wages, salaries, tips, etc. Attach Form(s) W-2	<b>1</b>			
Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.	<b>2a</b>	Tax-exempt interest	<b>2a</b>		<b>b</b> Taxable interest	<b>2b</b>	
	<b>3a</b>	Qualified dividends	<b>3a</b>		<b>b</b> Ordinary dividends	<b>3b</b>	
	<b>4a</b>	IRAs, pensions, and annuities	<b>4a</b>		<b>b</b> Taxable amount	<b>4b</b>	
	<b>5a</b>	Social security benefits	<b>5a</b>		<b>b</b> Taxable amount	<b>5b</b>	
	<b>6</b>	Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22		<b>6</b>			
		<b>7</b>	Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	<b>7</b>			
<b>Standard Deduction for –</b> <ul style="list-style-type: none"> <li>• Single or married filing separately, \$12,000</li> <li>• Married filing jointly or Qualifying widow(er), \$24,000</li> <li>• Head of household, \$18,000</li> <li>• If you checked any box under Standard deduction, see instructions.</li> </ul>	<b>8</b>		<b>Standard deduction or itemized deductions</b> (from Schedule A)	<b>8</b>			
	<b>9</b>		Qualified business income deduction (see instructions)	<b>9</b>			
	<b>10</b>		Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	<b>10</b>			
	<b>11</b>		<b>a</b> Tax (see inst.) (check if any from: <b>1</b> <input type="checkbox"/> Form(s) 8814 <b>2</b> <input type="checkbox"/> Form 4972 <b>3</b> <input type="checkbox"/> )	<b>11</b>			
			<b>b</b> Add any amount from Schedule 2 and check here <input type="checkbox"/>	<b>11</b>			
	<b>12</b>		<b>a</b> Child tax credit/credit for other dependents <b>b</b> Add any amount from Schedule 3 and check here <input type="checkbox"/>	<b>12</b>			
	<b>13</b>		Subtract line 12 from line 11. If zero or less, enter -0-	<b>13</b>			
	<b>14</b>		Other taxes. Attach Schedule 4	<b>14</b>			
	<b>15</b>		Total tax. Add lines 13 and 14	<b>15</b>			
	<b>16</b>		Federal income tax withheld from Forms W-2 and 1099	<b>16</b>			
<b>17</b>		Refundable credits: <b>a</b> EIC (see inst.) <b>b</b> Sch. 8812 <b>c</b> Form 8863	<b>17</b>				
		Add any amount from Schedule 5	<b>17</b>				
<b>18</b>		Add lines 16 and 17. These are your total payments	<b>18</b>				
<b>Refund</b>		<b>19</b>	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you <b>overpaid</b>	<b>19</b>			
<b>20a</b>		Amount of line 19 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>20a</b>				
<b>▶ b</b>		Routing number <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings					
<b>▶ d</b>		Account number					
<b>21</b>		Amount of line 19 you want <b>applied to your 2019 estimated tax</b>	<b>21</b>				
<b>Amount You Owe</b>		<b>22</b>	<b>Amount you owe.</b> Subtract line 18 from line 15. For details on how to pay, see instructions	<b>22</b>			
<b>23</b>		Estimated tax penalty (see instructions)	<b>23</b>				



## NFIB's Tax Goals

- Maintain *Tax Cuts and Jobs Act* gains and advocate for permanency of the expiring provisions.
- Reps. Jason Smith (R-MO) and Henry Cuellar (D-TX) introduced *Main Street Tax Certainty Act* (H.R. 216) to make the Small Business Deduction permanent.



**NFIB**<sup>TM</sup>