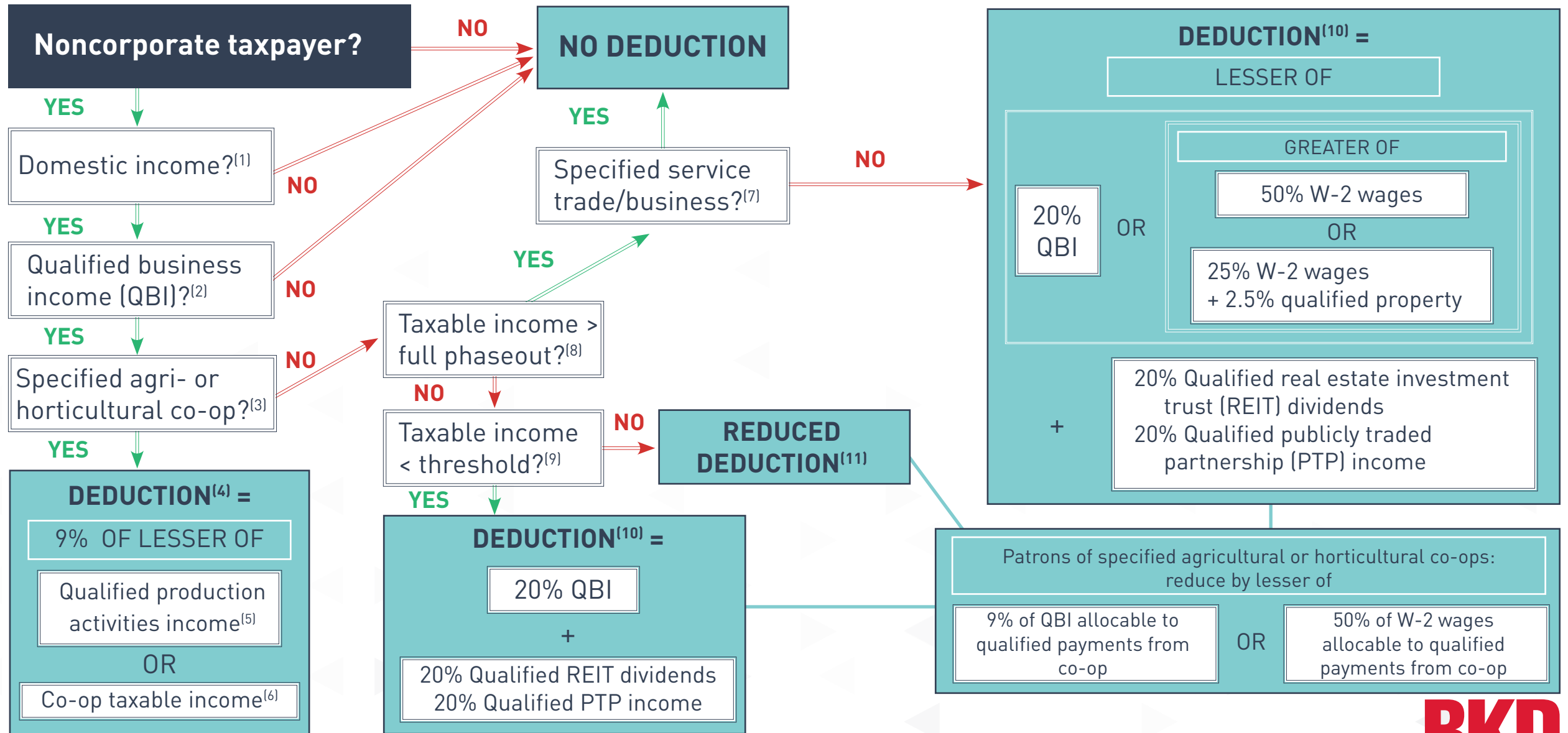


Pass-Through Business Deduction

Effective in 2018, the new Internal Revenue Code Section 199A provides a 20 percent deduction of domestic qualified business income (QBI) from a partnership, S corporation or sole proprietorship to noncorporate taxpayers, *i.e.*, individuals, trusts and estates. This provision sunsets December 31, 2025.



See next page for footnotes.

Pass-Through Business Deduction

- (1) Domestic: Effectively connected with conduct of trade/business within U.S. & Puerto Rico
- (2) QBI: Net amount of items of income, gain, deduction & loss with respect to any qualified trade or business, except
 - Reasonable compensation
 - Guaranteed payments
 - Investment income
 - Short-term & long-term capital gain/loss
 - Dividend income
 - Interest income

Note: Overall loss treated as loss for purposes of calculation in subsequent year

- (3) Specified agricultural or horticultural cooperative: An entity organized & operated on a cooperative basis that is significantly engaged in the marketing, manufacturing, production, growth or extraction of any agricultural or horticultural product, including fertilizer, diesel fuel & other supplies
- (4) Deduction limited to 50 percent of W-2 wages allocable to domestic production gross receipts
- (5) Qualified production activities income: Domestic production gross receipts less the cost of goods sold, losses & other expenses properly allocable to those receipts
- (6) Taxable income determined before any deduction for patronage dividends, per-unit retain allocations & nonpatronage dividends

- (7) Specified service business: Any trade or business involving performance of services in fields of
 - Health
 - Law
 - Accounting
 - Actuarial science
 - Performance arts
 - Investing & investment management, trading or dealing in securities, partnership interests or commodities
 - Consulting
 - Athletics
 - Financial services
 - Brokerage services
 - Principal asset is reputation or skill of one or more of its employees or owners
- (8) Full phaseout = \$207,500 (single) | \$415,000 (married filing jointly (MFJ)), indexed
- (9) Threshold = \$157,500 (single) | \$315,000 (MFJ), indexed
- (10) Deduction = Limited to 20 percent of excess of taxable income over the sum of any net capital gain
- (11) Reduced deduction: Wage limitation phases in & the deduction for specified service businesses phases out on a pro-rata basis between the threshold & full phase-out amounts