Aggregation Rules for the Qualified Business Income (QBI) Deduction Under the *Tax Cuts and Jobs Act*

Effective in 2018, the new Internal Revenue Code (IRC) Section 199A provides a 20 percent deduction of domestic QBI from a partnership, S corporation or sole proprietorship to noncorporate taxpayers, *i.e.*, individuals, trusts and estates. View **this flowchart** for a closer look at this deduction. In proposed regulations for IRC §199A released on August 8, the IRS and U.S. Department of the Treasury provide rules on aggregating two or more trades or businesses for purposes of applying the limitations when calculating a taxpayer's QBI deduction.

Why aggregate? If you have multiple trades or businesses and are facing the W-2 wages or unadjusted basis of qualified property limitations, you might consider aggregating. Note that aggregation is elective and requires the below criteria be met.

AGGREGATION CRITERIA

Trades or businesses may only be aggregated if an individual can demonstrate each trade or business independently meets the definition of a trade or business for purposes of IRC §199A, and the below criteria are met.

CAUTION! Aggregation of multiple trades or businesses does not always increase your deduction! In some cases, aggregation may decrease your deduction.

ALL FOUR

- None of the aggregated trades or businesses can be a **Specified Service Trade or Business**
- 50 percent or more direct or indirect ownership by the same person or group of persons for each trade or business being aggregated
- 50 percent or more ownership (above) exists for a majority of the taxable year
- All of the items attributable to each trade or business are reported on returns with the same taxable year (not taking into account short taxable years)

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TWO OF THREE

- Products or services provided are the same or customarily offered together
- Share facilities or significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources or information technology resources
- Operated in coordination with or reliance on one or more trades or businesses in the group

Example | D owns 75 percent of the stock of S1, S2 and S3, each of which is an S corp. Each S corp operates a grocery store in a different state. S1 and S2 share centralized purchasing functions to obtain volume discounts and a centralized accounting office that performs all bookkeeping. S3 is operated independently from the other businesses. D may aggregate S1 and S2 into a single trade or business but must report S3 as a separate trade or business since S3 doesn't share centralized business elements.

Heads Up! Aggregating is elective, and once two or more trades or businesses are aggregated into a single trade or business, individuals must consistently report the aggregated group in subsequent tax years.