

## The 20% Qualified Business Income Deduction

### **What is the 20% Qualified Business Income (QBI) Deduction?**

It's part of the new tax law, "The Tax Cuts and Jobs Act." It was intended to give a 20% deduction off the net business income of pass-through entities -- but only if they qualify.

### **Do I need to have an S-Corporation to qualify?**

No. The deduction is available to any pass-through entity even if operating as a sole proprietor or independent contractor.

### **Is the deduction available for brokers and agents?**

Yes. For most real estate professionals, the deduction is available only if their taxable income does not exceed certain threshold amounts.

### **How much are these threshold amounts?**

For independent filers the threshold is taxable income of \$157,500. For a couple filing jointly the threshold is taxable income of \$315,000.

If your total taxable income is within the threshold amounts, you are eligible for the entire 20% QBI deduction. If your total taxable income exceeds the threshold amount, eligibility phases out over the next \$50,000 for individual filers and \$100,000 for joint filers. Beyond these thresholds, real estate professionals are still eligible, but the deduction is based on a formula that looks at wages paid and depreciable business property.

### **In calculating my taxable income, do I take the 20% QBI deduction first?**

No. You first calculate your taxable income. If your taxable income is within the threshold limits, you then would be eligible to take a further 20% deduction off your QBI.

### **In calculating my taxable income, can I take the standard deduction or am I only eligible for the QBI deduction if I itemize?**

You may take the standard deduction. You're not required to itemize to be eligible for the QBI deduction.

### **In calculating my taxable income, do I include my W-2 wages or just the money I make as an agent?**

You include your W-2 wages and other income, including net commissions, to calculate your taxable income.

### **So, if I qualify then I simply take a 20% deduction off my taxable income?**

No. You only get a 20% deduction off the amount of your net business income, not including capital gains.