STEP 2 – QUALIFIED BUSINESS INCOME DEDUCTION ALLOWED PER ENTITY

Taxable Income**

Lower Threshold
≤ $160,700 Single
≤ $321,400 Married Filing Jointly

Any income from either
1) Qualified trade or business or
2) Specified service trade or business

No → **No QBI Deduction Allowed**

Yes → **QBI Deduction Allowed**

Multiply qualified business income (QBI) by 0.2 to arrive at the taxpayer's allowed QBID.

Phase-in Range of W-2 Wage Limit
Income between lower and upper threshold

Income from qualified trade or business → Conduct the following **W-2 Wage Limit Test**

Income from specified service trade or business → Conduct the following **W-2 Wage Limit Test**

STEP 1: CALCULATE REDUCTION RATIO

Single

$$= \frac{\text{Taxable income} - \$160{,}700}{\$50{,}000}$$

Married Filing Jointly

$$= \frac{\text{Taxable income} - \$321{,}400}{\$100{,}000}$$

STEP 2: CALCULATE W-2 LIMIT

Greater of
- 50% all employee wages or
- 25% wages + 2.5% unadjusted basis immediately after acquisition

STEP 2: CALCULATE APPLICABLE PERCENTAGE

= 100% – Reduction ratio

STEP 3: APPLY APPLICABLE PERCENTAGE

Includible QBI = QBI × Applicable %
Includible wages = Wages × Applicable %
Includible unadjusted = Unadjusted basis immediately after acquisition

STEP 4: CALCULATE W-2 LIMIT

Greater of
- 50% includible wages or
- 25% includible wages + 2.5% includible unadjusted basis immediately after acquisition

If W-2 limit > 20% × QBI, then QBID allowed = 20% × QBI.
Otherwise, continue below.

STEP 3: CALCULATE EXCESS

= (0.2 × QBI) – W-2 limit

STEP 5: CALCULATE EXCESS AMOUNT

= (0.2 × Includible QBI) – W-2 limit

STEP 4: CALCULATE ALLOWED QBID AMOUNT

$$= (0.2 \times \text{QBI}) - \left(\text{Reduction ratio} \times \text{Excess amount}\right)$$

STEP 6: CALCULATE ALLOWED QBID

$$= (0.2 \times \text{Includible QBI}) - \left(\text{Reduction ratio} \times \text{Excess amount}\right)$$

Upper Threshold
≥ $210,700 Single
≥ $421,400 Married Filing Jointly

Income from qualified trade or business → **QBI Deduction Allowed**

Income from specified service trade or business → **No QBI Deduction Allowed**

Conduct the following **W-2 Wage Limit Test**

STEP 1: CALCULATE W-2 LIMIT

Greater of
- 50% all employee wages or
- 25% wages + 2.5% unadjusted basis immediately after acquisition

STEP 2: QBID ALLOWED EQUALS

Lesser of
- 20% of QBI or
- W-2 limit

** Taxable income equals adjusted gross income (line 8b of Form 1040) minus standard or itemized deductions (line 9 of Form 1040).

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