



# The Qualified Business Income Tax Deduction



The Qualified Business Income deduction, also known as the pass-through deduction, enables most self-employed taxpayers and small business owners to exclude as much as 20% of their qualifying business income from federal tax. This document provides an overview of the QBI Deduction and how it may help in reducing your tax liability.

## What is the QBI Deduction?

The QBI deduction was created by the Tax Cuts and Jobs Act of 2017 and will be in effect from tax years 2018 to 2025. It enables a taxpayer to deduct up to 20% of qualifying pass-through business income, REIT dividends, or qualified publicly traded partnership income on their individual income tax returns. Pass-through entities include sole proprietorships, partnerships, S corporations, and limited liability companies.

The deduction is based on Qualifying Business Income which is the net amount of qualified items of income, gain, deduction, and loss with respect to any trade or business. It does not include capital gains or losses, dividends, interest income, income earned outside the US, or certain wage and guaranteed payments made to partners and shareholders.

## How to Qualify for the Deduction

To qualify for the full deduction, the owner's taxable income, before the QBI deduction, must be below \$163,300 for single taxpayers and \$326,600 for married filing jointly for the 2020 tax year. For the 2021 tax year, the thresholds are \$164,900 for single taxpayers and \$329,800 for married filing jointly.

If an owner's taxable income exceeds those amounts, the deduction is reduced or eliminated altogether, depending on the type of the business and the amount of income. IRS rules place restrictions on which trades or businesses qualify for full or partial deductions. Limitations on deductions focus on factors such as trade or business type, taxable income, and the amount of W-2 wages the company has paid.





# Final Thoughts

The formulas and calculations for the qualified business income deduction can be complicated and this document is only meant to provide a brief overview. If you would like help determining your eligibility and potential deduction, please contact our office.



# About Olsen Thielen

Olsen Thielen is a full service accounting and consulting firm, and a "Top 25" firm in Minneapolis and St. Paul, Minnesota. We focus on providing top quality solutions for our clients through our traditional accounting and tax services, as well as non-traditional services like valuations, business succession planning, employee benefits and human resources consulting, back-office cloud accounting solutions, estate, gift and financial planning, and fraud and forensic accounting.

Olsen Thielen was founded on the belief that personal attention, trust, and quality service were the key elements to helping our clients succeed. As we celebrate our centennial, that commitment remains stronger than ever. Our longevity and growth can be attributed to building strong relationships with our clients and continuing to earn their trust.



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