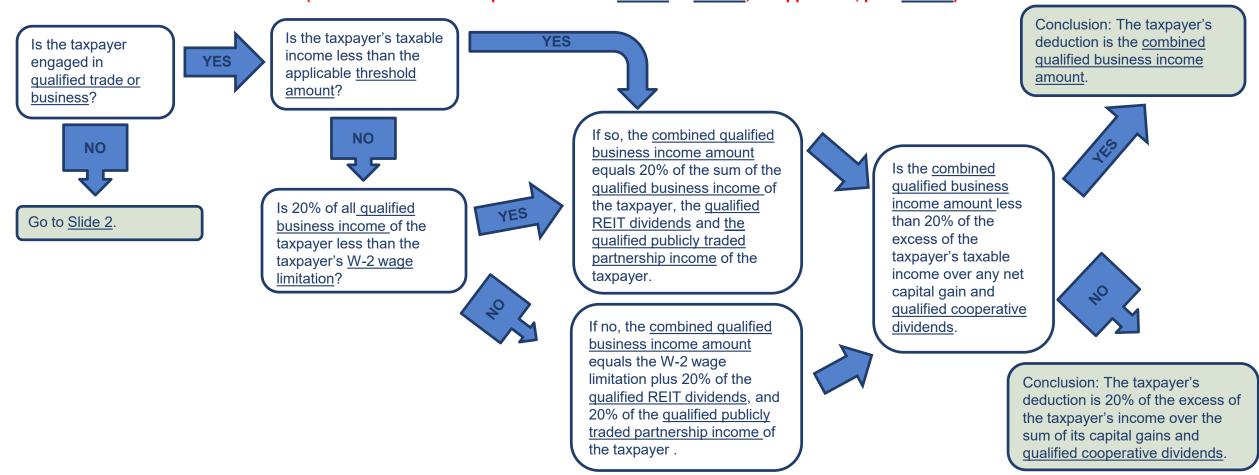


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Tax Cuts and Jobs Act

Deduction for Qualified Business Income of Pass-Through Entities (Amount of deduction equals the sum of Slide 1 or Slide 2, as applicable, plus Slide 3)



DISCLAIMER: The flow chart below is intended to be used as an aid in analyzing Internal Revenue Code Section 199A is not intended to be a complete discussion of that statute. Internal Revenue Code Section 199A is new and complex, and readers should consult with a knowledgeable tax advisor in order to determine how this statue will apply to them. This flow chart is provided by Duane Morris for informational purposes only, and does not constitute tax or legal advice.



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Tax Cuts and Jobs Act

Deduction for Qualified Business Income of Pass-Through Entities (Amount of deduction equals the sum of Slide 1 or Slide 2, as applicable, plus Slide 3)

If the taxpayer is in a <u>specified service trade or business</u>, is the taxpayer's taxable income less than the applicable <u>threshold amount</u>?



Conclusion: The taxpayer's <u>specified service trade or business</u> shall not fail to be treated as a <u>qualified trade or business</u>, and the taxpayer's deduction is the lessor of (i) 20% of the taxpayer's <u>qualified business income</u> or (ii) 20% of the excess of the taxpayer's taxable income over any net capital gain and <u>qualified</u> cooperative dividends.



Is the taxpayer's taxable income less than the sum of the applicable threshold amount plus \$50,000 (\$100,000 in the case of a joint return)? For example, if the taxpayer earned in 2018 between \$157,500-\$207,500 (\$315,000-\$415,000 in the case of a joint return), the taxpayer would answer yes.



The taxpayer's <u>specified service trade or business</u> shall not fail to be treated as a <u>qualified trade or business</u>. Continue the calculation on <u>Slide 1</u>, using the <u>applicable</u> percentage amount.



Conclusion: The taxpayer is not entitled to any deduction of the pass-through entities' net income, unless the taxpayer receives a deduction pursuant to Slide 3.



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Deduction for Qualified Business Income of Pass-Through Entities (Amount of deduction equals the sum of <u>Slide 1</u> or <u>Slide 2</u>, as applicable, plus <u>Slide 3</u>)

Does the taxpayer earn <u>qualified cooperative</u> <u>dividends</u> during the tax year?



Conclusion: The taxpayer is not entitled to any deduction of the pass-through entities' net income, unless the taxpayer receives a deduction pursuant to Slide 1 or Slide 2.

YES

Are 20% of the taxpayer's qualified cooperative dividends earned during the tax year less than the taxpayer's taxable income (reduced by the taxpayer's net capital gains)?



Conclusion: Taxpayer's deduction is the sum of its net taxable income (reduced by the taxpayer's net capital gains).

Conclusion: Under Process 2, the taxpayer's deduction is 20% of the <u>qualified cooperative</u> dividends.

1. Qualified Trade or Business

 Any trade or business other than: (i) a <u>specified service trade or</u> <u>business</u> or (ii) the trade or business of being an employee.

2. Specified Service Trade or Business

Any trade or business involving the performance of services in the fields of health, law, accounting, actuarial service, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management, trading or dealing in securities, partnership interests or commodities.

3. Threshold Amount

This is the amount which causes the <u>W-2 wage limitation</u> to be phased in and the specified service trade or business exclusion to be phased in, thus, if a taxpayer earns less than the applicable threshold amount, neither the <u>W-2 wage limitation</u> nor the <u>specified service trade or business</u> exclusion apply. The threshold amount is \$315,000 for joint filers and \$157,500 for single filers (in each case adjusted for inflation).

4. Qualified Business Income

 The net amount of qualified items of income, gain, deduction and loss with respect to the qualified trade or business of the taxpayer. Items of income, gain, deduction and loss are qualified only to the extent that: (i) they are included or allowed in the determination of the taxpayer's taxable income for the year and (ii) they are effectively connected with the conduct of a trade or business in the United States or Puerto Rico. Qualified business income does not include: (a) any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer; (b) any guaranteed payment by a partnership to a partner for services rendered with respect to the trade or business; (c) any amount paid by a partnership to a taxpayer acting other than in his or her capacity as a partner for services; or (d) specified investment-related income, such as short-term capital gains or losses, longterm capital gains or losses, dividends income or interest income.

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5. W-2 Wage Limitation

 The W-2 wage limitation is equal to the greater of: (i) 50% of the taxpayer's allocable share of the entities' W-2 wages paid or (ii) the sum of (a) 25% of the W-2 wages allocated to the taxpayer plus (b) 2.5% of the unadjusted basis (immediately after acquisition) of all qualified property. If the taxpayer's taxable income is below the threshold amount, then the W-2 wage limitation does not apply. The W-2 wage limitation phases in for a taxpayer with taxable income in excess of the threshold amount. The W-2 wage limitation is fully phased in for taxpayers who have taxable income of: (x) \$315,000 + \$100,000 for joint filers and (y) \$157,500 + \$50,000 for single filers. Note that the W-2 wage limitation does not apply to qualified REIT dividends or qualified publicly traded partnership income.

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6. W-2 Wages

 Means the total wages subject to wage withholding, elective deferrals, and deferred compensation paid by the qualified trade or business with respect to employment of its employees during the calendar year ending during the tax year of the taxpayer. W-2 wages do not include: (a) any amount that is not properly allocable to the qualified business income as a qualified item of deduction; and (b) any amount that was not properly included in a return filed with the Social Security Administration on or before the 60th day after the due date (including extensions) for filing such return.

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7. Qualified Property

 Means tangible property of a character subject to depreciation: (i) is held by, and available for use in, the <u>qualified trade or business</u> at the end of the tax year; (ii) that is used in the production of <u>qualified</u> <u>business income</u>; and (iii) for which the <u>depreciable period</u> has not ended before the end of the tax year.

8. Depreciable Period

Means, with respect to <u>qualified property</u>, the period beginning on the date the property is first placed into service and ending on the later of: (i) the date 10 years after such date; and (ii) the last day of the last full year of the applicable recovery period that would apply to the property under IRC § 168 (without regard to § 168(g)).



9. Combined Qualified Business Income Amount

Means the sum of: (i) the lesser of (a) 20% of the <u>qualified business</u> <u>income</u> of the taxpayer and (b) the <u>W-2 wage limitation</u> of the taxpayer; plus (ii) 20% of all <u>qualified REIT dividends</u> of the taxpayer; plus (iii) 20% of all <u>qualified publicly traded partnership income</u> of the taxpayer.

10. Applicable Percentage Amount

Means the <u>applicable percentage</u> of qualified items of income, gain, deduction or loss and the <u>W-2 wages</u> and the unadjusted basis immediately after acquisition of <u>qualified property</u> of the taxpayer allocable to such <u>specified service trade or business</u> shall be taken into account in computing the <u>qualified business income</u>, <u>W-2 wages</u> and the unadjusted basis immediately after acquisition of <u>qualified property</u> of the taxpayer for the taxable year for purposes of applying this section.



11. Applicable Percentage

 Means the 100%, reduced (not below zero) by the percentage equal to the ratio of (i) the taxable income of the taxpayer for the year in excess of the threshold amount, bears to (ii) \$50,000 (\$100,000 in the case of a joint return).



12. Qualified REIT Dividends

 Means any dividend from a REIT received during the tax year which is not a capital gain dividend and is not qualified dividend income.

13. Qualified Publicly Traded Partnership Income

Means, with respect to any qualified trade or business of the taxpayer, the sum of: (i) the net amount of such taxpayer's allocable share of each item of income, gain, deduction and loss from a publicly traded partnership which is not treated as a corporation plus (ii) any gain recognized by the taxpayer upon the disposition of its interest in such publicly traded partnership to the extent such gain is treated as an amount realized from the sale or exchange of property other than a capital asset under IRC § 751(a).

14. Qualified Cooperative Dividend

Means any patronage dividend (as defined in IRC § 1388(a)), any per-unit retain allocation (as defined in IRC § 1388(f)) and any qualified written notice of allocation (as defined in IRC § 1388(c)) or any similar amount received from an organization described in IRC § 501(a) and/or IRC § 1381 and/or an organization which is governed by the rules applicable to cooperatives before the enactment of subchapter T.