



Taking Advantage of the New Tax Law
For Individuals & Businesses

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Major Changes for Individuals: Sunset Provision

The Act has sunset provisions

- With regard to individual taxpayers, most of the provisions in the Act commence on January 1, 2018.
- Congress makes the Act permanent or extends the provisions of the Act, most of the provisions for individual taxpayers will expire on December 31, 2025.
- The corporate taxpayer provisions under the Act are permanent. To change these provisions, an act of Congress would be necessary.

Major Changes for Individuals:

Tax rate decreases

- Tax rates reduced at all income levels

2018: Seven tax brackets:
10%, 12%, 22%, 24%, 32%, 35%, and 37%

2017: Seven tax brackets:
10%, 15%, 25%, 28%, 33%, 35%, and 39.6%

Major Changes for Individuals:

Tax rate decreases

- **Tax rates reduced at all income levels**

- Below \$200,000 in income—get tax reduction (up to 3%).
- In \$200,000 to \$300,000 range, not much change.
- Above \$300,000, tax reduction (up to 3%).
- Other factors come into play in ultimate result.

%	S	MFJ
10%	9,525	19,050
12%	38,700	77,400
22%	82,500	165,000
24%	157,500	315,000
32%	200,000	400,000
35%	500,000	600,000
37%	EXCESS	EXCESS

Major Changes for Individuals:

Deduction, exemptions, & credit changes

- **Reduced itemized deductions/increase of standard deduction**
 - Itemized deduction now only include medical expenses, taxes limited to \$10,000, mortgage interest, charitable contributions, casualty losses.
 - Standard deduction has doubled, and is now \$24,000 MFJ & \$12,000 for Single
 - **IMPACT:** More people will take standard deduction & fewer will be subject to AMT
- **Exemptions removed and child tax credit doubled from \$1k to \$2k per child.**
 - Generally this will help those with children under age of 18, and hurt those without children age 18 and over

Major Changes for Individuals:

Other Miscellaneous

- **Estate limits have increased to \$11,400,000**
- **529 plans can now be used for secondary education**
- **Kiddie tax now tied to higher trust tax rates**
- **Alimony will no longer be tax deductible for new divorces starting 2019**

Planning Ideas for Individuals: Itemized vs. Standard Deduction

REMINDER: Standard deduction was doubled to \$24k MFJ & \$12k Single

- Taxes are limited to \$10,000
- If filing joint, other deductions (usually charity & interest) must be more than \$14,000 to itemize (\$2,000 for single)
- **Maximize itemized deductions by bunching this year (or next) & alternate years.**
 - Give next year's charitable contribution's on Dec 31 (or Jan 1)
 - Prepay (or defer) medical expenses
 - *Note: No need to prepay state tax but want to be sure to avoid penalties*

Planning Ideas for Individuals:

Charitable Contribution Strategies (Besides Bunching)

- **Give appreciated assets**
 - By gifting highly appreciated assets you save on capital gains tax
- **If over 70 ½, contribute directly to charity from retirement account**
 - This is beneficial especially if you won't be itemizing
 - Satisfies RMD requirements and avoids paying income tax
 - Reduces Medicare costs
 - May make less social security benefits taxable as well
 - May make more passive losses currently deductible

Planning Ideas for Individuals: Retirement Plan Considerations

- **Consider the following during low income years**
 - Contribute to Roth IRA and Roth 401(k)
 - Convert taxable retirement to Roth
- **Consider the following during high income years**
 - Contribute to most tax advantaged retirement plan
 - Backdoor Roth (if appropriate)

Planning Ideas for Individuals: Capital Gains & Losses

- **Generally try and offset realized gains with losses at end of year**
- **Consider capturing gains if you're in zero or 15% Federal bracket**
- **Consider reinvesting gains in "Opportunity Zone" real estate**

%	S	MFJ
0%	38,700	77,400
15%	426,700	480,050
20%	EXCESS	EXCESS

Planning Ideas for Individuals:

Kiddie Tax

- **Reconsider appropriateness of gifting funds to children**
 - Your tax rate may now be lower than theirs (at new kiddie tax levels)
 - High balances in their accounts may impact eligibility for FAFSA

%	Estates & Trusts, Kiddie Rates
10%	2,550
24%	9,150
35%	12,500
37%	EXCESS

Planning Ideas for Individuals:

Home Mortgage Interest

Key Changes:

- Acquisition debt limited to \$750,000 for new homes purchased after 12/15/2017
- \$1,000,000 acquisition debt grandfathered in for prior purchases
- Primary and secondary residences
- Interest on \$100,000 of home equity debt no longer deductible unless borrowings were used to purchase or improve your house.
- **Must identify use of home equity loan proceeds to determine if and where it's deductible (tracing rules).**

Planning Ideas for Individuals:

Alimony

REMINDER: Alimony will no longer be tax deductible for agreements approved after 2018.

- **Signed agreement must be in place by December 31, 2018 to deduct alimony in the future**
- **Prenuptial agreements may need to be changed since alimony would no longer be deductible starting in 2019**

Planning Ideas for Individuals:

Estate Planning

REMINDER: New federal limit \$11,400,000, Maryland limit \$5,000,000

- **Review legal documents (will, advanced directive, POA, healthcare POA)**
- **Consider use of trusts**
- **Determine if appreciated assets should be held until death to get step-up in basis (avoid income taxes)**
- **Consider selling assets before death when current values are less than the cost**
- **Consider gifting the federal annual exclusion amount (on each January 1)**
- **Consider lifetime gifts to avoid the Maryland estate tax**

Planning Ideas for Individuals:

Strategies for eliminated itemized deductions

- **Pay investment advisor fees (that are no longer deductible) from inside retirement account**
 - Saves on taxes in the future
- **Accountant should elect to increase asset basis by carrying costs that were previously deductible (i.e. real estate, investable securities)**

Key Consideration for Individuals: Ask Accountant To Do Projection

- **Never be surprised!**
 - You should always know what your tax liability is projected to be in April (along with first quarter estimate)
- **Determine which planning ideas should be considered to minimize taxes on multi-year basis**
- **Make sure you're safe from underpayment penalty**
 - **WARNING:** Federal and State tax withholdings may be less than in prior years due to change in withholding tables

Major Changes for Businesses:

Most Important Changes

- **Entertainment expenses removed (meals are still deductible)**
- **Net operating loss can only be carried forward, but indefinitely**
- **Active losses are limited to \$500,000 per year**
- **Bonus Expensing (100% Depreciation)**
- **Sec 179 is \$1M (\$2.5M limit) MD \$25k, VA same as federal**
- **Luxury auto limits increase**
- **AMT removed for businesses**
- **20% Business Income Deduction and new 21% corporate rate**

Planning for Businesses: Entertainment & Meal Expenses

- **All direct entertainment expenses were removed**
 - Sporting events, concerts, amusement facilities, recreational facilities
- **Client meals are 50% deductible:**
 - **CRITERIA:** Business is conducted, the taxpayer is present, and the meal is not extravagant
 - Receipts need to show separated expenses when meal is at event

IMPORTANT TIP: Have three separate general ledger accounts: 100% deductible meals, 50% deductible meals, and non-deductible entertainment.

See Appendix B for more information about meal deductions

Planning for Businesses: Net Operating Loss

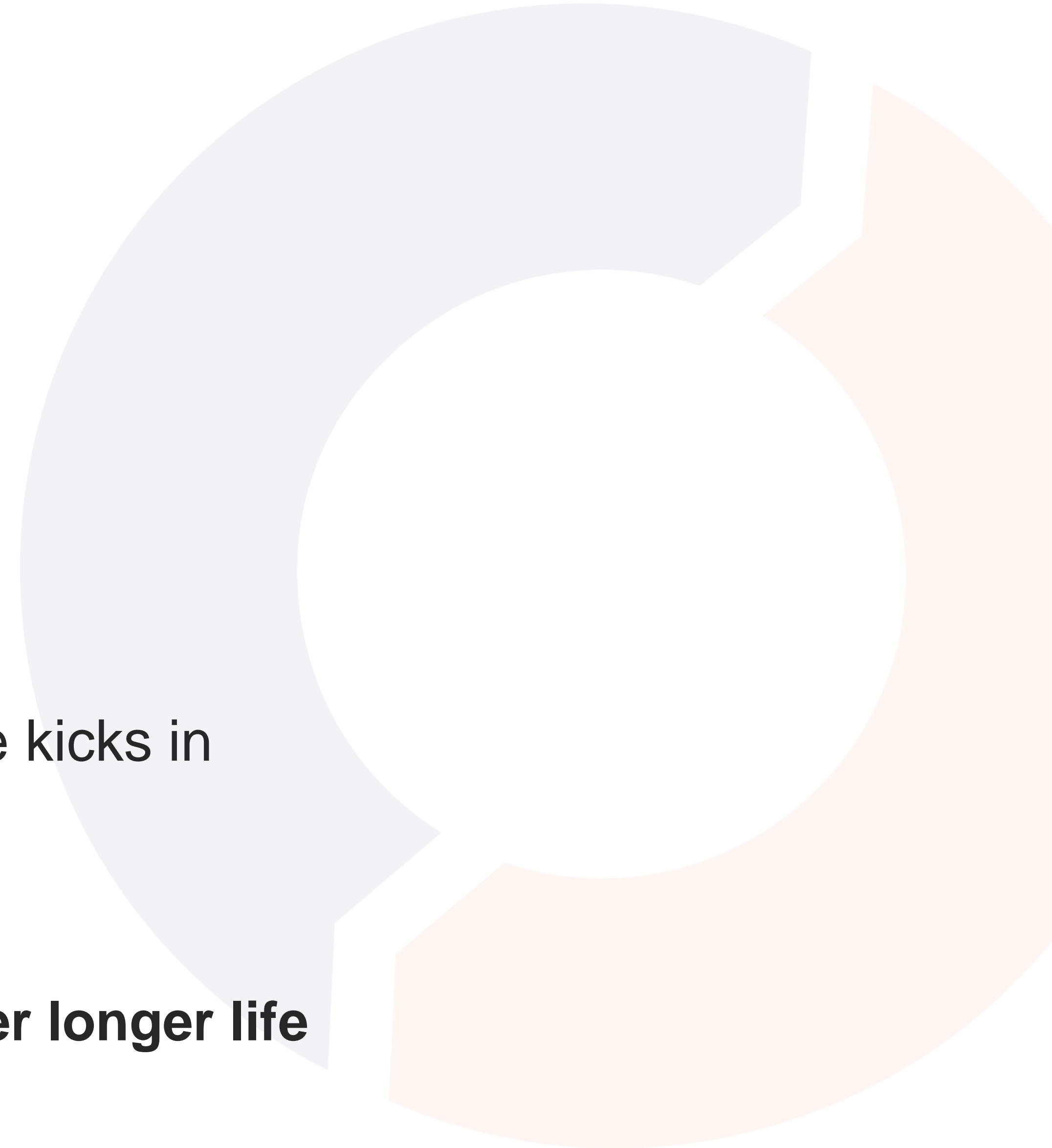
REMINDER: New law limits carryover deduction to 80% of current income

- **Consider accelerating income if still not taxable or in low bracket**
- **Consider converting Pre-tax retirement account to Roth (for individuals)**

Planning for Businesses: Bonus Expensing

MAJOR CHANGES

- 100% expensing
- For assets acquired after 9/27/17
- This provision ends on 12/31/2022
- Starting in 2023, a 20% phase-down schedule kicks in
- Does not apply to real estate property
- New or used equipment
- **Determine whether to expense or capitalize over longer life**



Planning for Businesses :

Sec 179 Deduction

EXPENSING LIMITS

- Increased to \$1,000,000 (from \$510,000) with annual cost of living adjustments
- Phase-Out: \$2,500,000
- Definition adds lodging furnishings and non-residential replacements of roofs, air conditioning, alarm, fire protection and security systems
- **Determine if state limitations are different than federal**
- **Determine whether to take section 179 deduction or capitalize over longer life**

Planning for Businesses :

Luxury Auto Limits

MAJOR CHANGES

- Maximum amounts without bonus
 - \$10,000 first year (compared to \$3,160 for 2017)
 - \$16,000 second year (compared to \$5,100 for 2017)
 - \$9,600 third year (compared to \$3,050 for 2017)
 - \$5,760 for additional years (compared to \$1,875 for 2017)
- Applies to automobiles placed in service after 12/31/2017 where bonus depreciation was not taken
- Adjusted for cost of living after 2018
- **Buying may now be more attractive than leasing**

Planning for Businesses:

Retirement Plan Considerations

- **Consider the following during low income years**
 - Contribute to Roth retirement plan
 - If next year's bracket will be higher, defer contribution until after return is filed (this will result in taking two year's deductions in one year)
- **Consider the following during high income years**
 - Contribute to Pre-tax retirement plan
- **Determine the economic and tax appropriateness of your plan**

Planning for Businesses: Corporate Taxation

REMINDER: All Corporations including Personal Service Corporations have a flat tax rate of 21%

- **Should your company convert to C Corp?**
 - Need to leave capital in the company
 - Age of shareholder
 - Exit strategy considering built in gain
 - Potential tax free sale of stock

Planning for Businesses:

Pass-Through Entity 20% Deduction

OVERVIEW:

- Tax rates are the same as the “individual” rate (via the “flow-through”)
- **HOWEVER: A 20% deduction from income available**
 - This is an attempt to create some parity between Corporations and flow-through businesses
 - This will phase out for higher income taxpayers (example: MFJ - \$315,000)
- Applies to Sole Proprietorships, Partnerships, S Corporations, and LLCs that do not elect to be treated like C Corporations

20% Deduction: Calculation Process

Calculate Eligible QBI
Deduction

Calculate 20% of
(Personal Taxable Income –
Capital Gains)

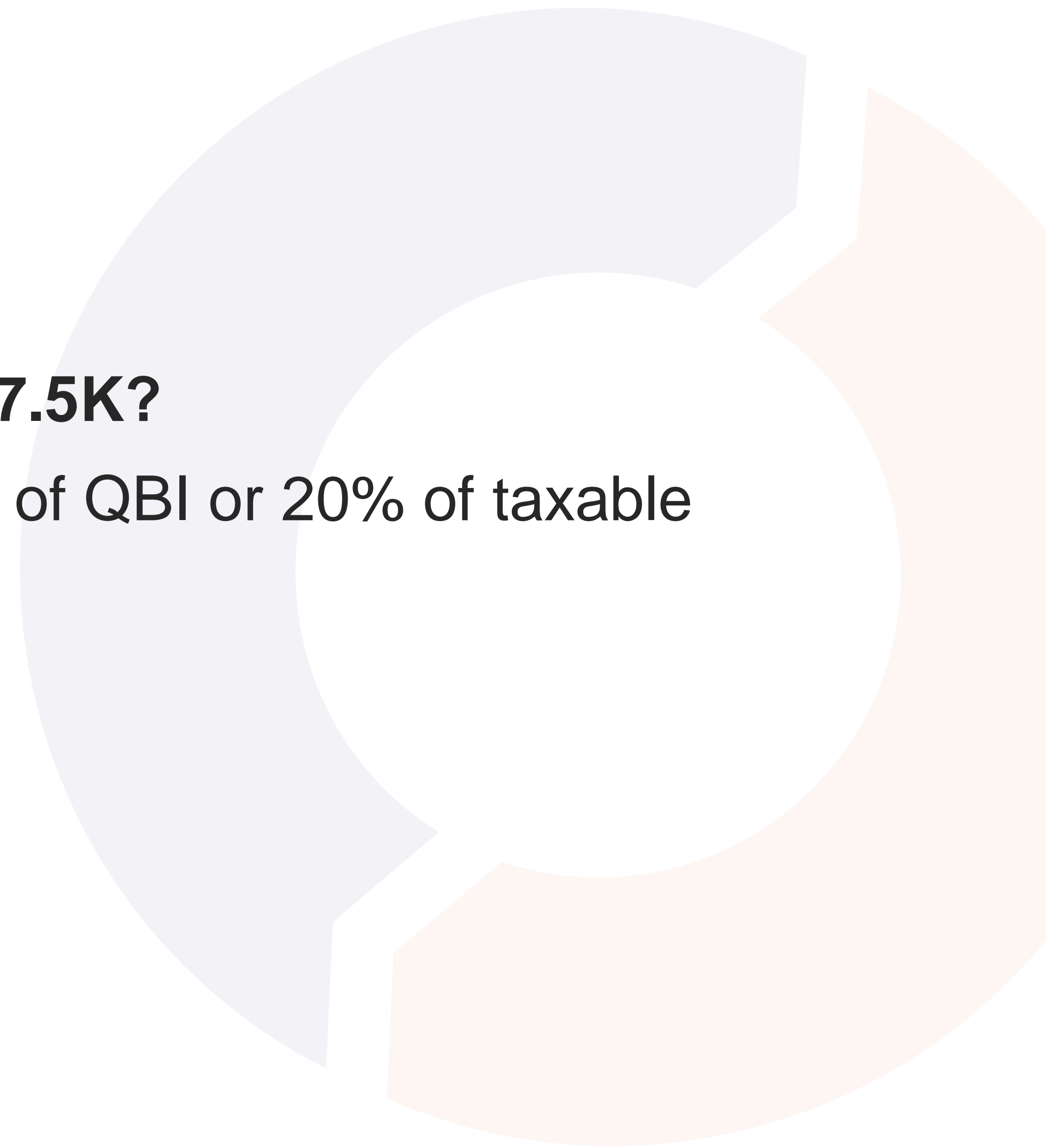
Use the lower of the two numbers

20% Deduction:

First Question To Ask

1. IS TAXABLE INCOME UNDER \$315K/\$157.5K?

- If yes, your deduction is the lesser of 20% of QBI or 20% of taxable income (less capital gains).



20% Deduction:

Case 1 (under \$315k/\$157.5k)

- Taxable income* \$240,000
- Business income 200,000



*Assume no capital gains

20% Deduction: Case 1 (under \$315k/\$157.5k)

• Taxable income*	\$240,000
• Business income	200,000
20% of taxable income	\$48,000
20% of business income	40,000

*Assume no capital gains

20% Deduction:

Case 2 (under \$315k/\$157.5k)

- Taxable income* \$160,000
- Business income 200,000



*Assume no capital gains

20% Deduction: Case 2 (under \$315k/\$157.5k)

• Taxable income*	\$160,000
• Business income	200,000
20% of taxable income	\$32,000
20% of business income	40,000

CONSIDER:

- increasing taxable income by pushing itemized deductions to next year, Roth conversion, timing of retirement plan contribution

*Assume no capital gains

20% Deduction: Service Business

1. IS TAXABLE INCOME UNDER \$315K/\$157.5K?

- If yes, your deduction is the lesser of 20% of QBI or 20% of taxable income (less capital gains).
- If not, see next question.

2. ARE YOU A SERVICE BUSINESS?

20% Deduction: Service Business

SERVICE BUSINESS SHORT DEFINITION:

“Any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, 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 1 or more of its employees”

SPECIFICALLY EXCLUDED FROM THE ABOVE DEFINITION

- Architects
- Engineers
- Insurance agent (new reg)
- Real estate agent (new reg)

20% Deduction: Service Business

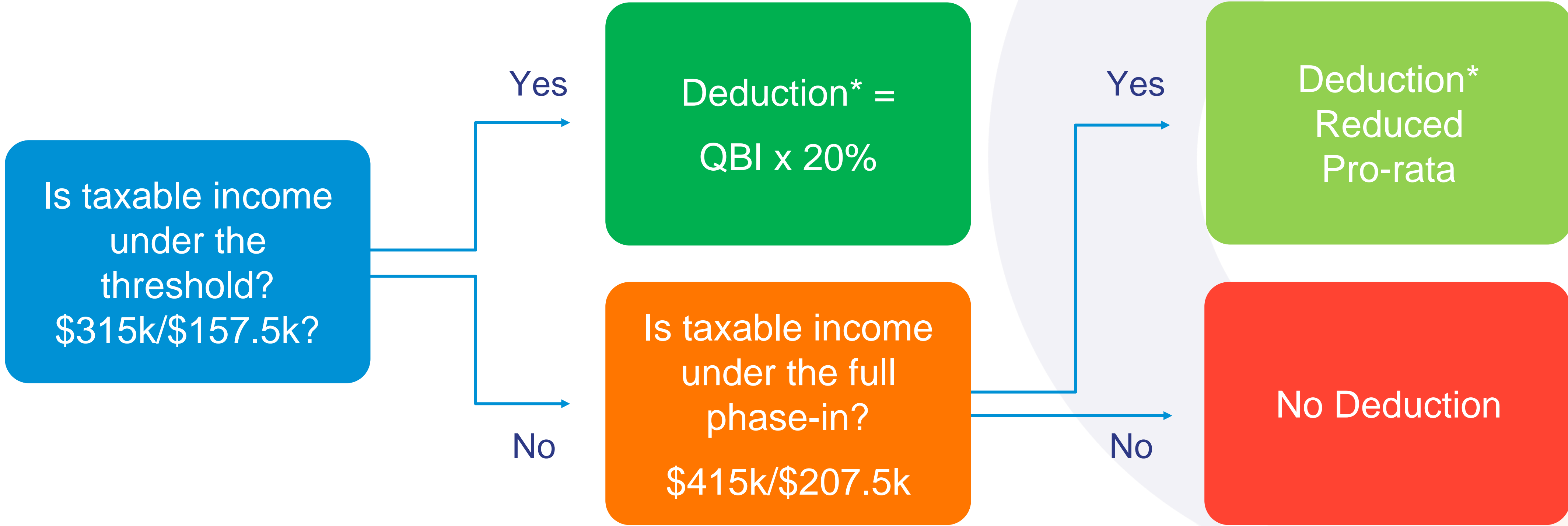
1. IS TAXABLE INCOME UNDER \$315K/\$157.5K?

- If yes, your deduction is the lesser of 20% of QBI or 20% of taxable income (less capital gains).
- If not, see next question.

2. ARE YOU A SERVICE BUSINESS?

- If yes, the 20% is phased out proportionately until \$415k/\$207.5k (see case 7). If you're above \$415k/\$207.5k you don't get any deduction.

20% Deduction: Service Business



*Remember you will take lesser of 20% of QBI or 20% of taxable income (less capital gains)

20% Deduction Planning: Service Business

- **If over the \$315,000/\$157,000 limit (service business):**
 - Potentially lower guaranteed payments
 - Control revenue and expenses
 - Specialized industries (Separate non-service related business)
 - Multiple companies (combining businesses)

20% Deduction: Non-service Business

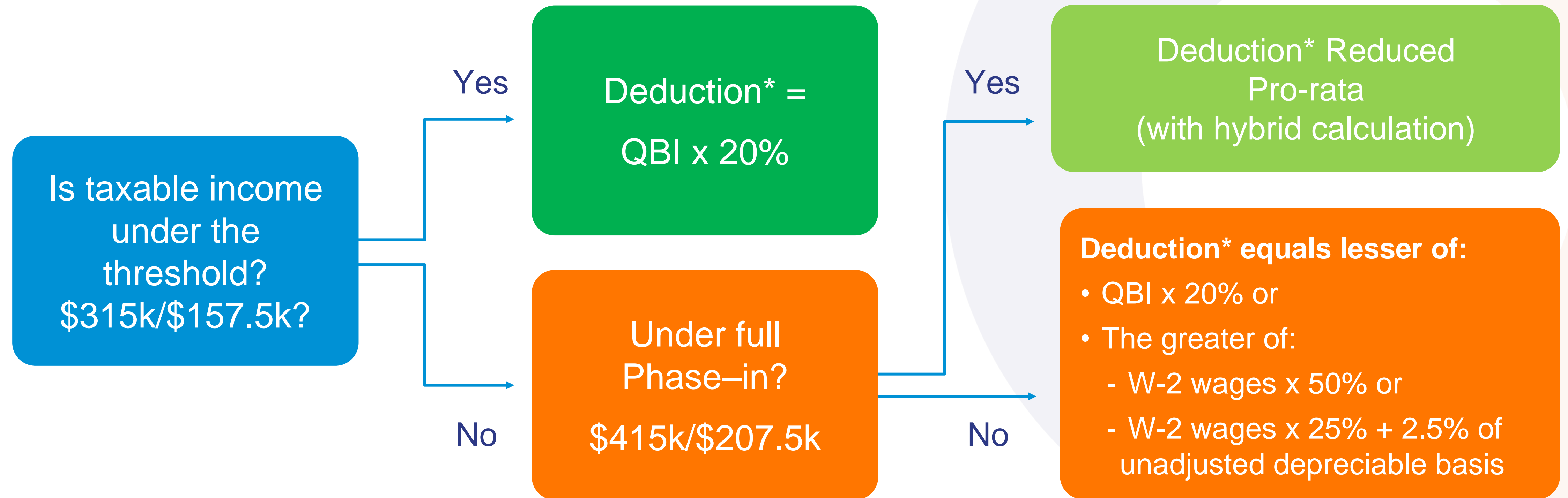
1. IS TAXABLE INCOME UNDER \$315K/\$157.5K?

- If yes, your deduction is the lesser of 20% of QBI or 20% of taxable income (less capital gains).
- If not, see next question.

2. ARE YOU A SERVICE BUSINESS?

- If yes, the 20% is phased out proportionately until \$415k/\$207.5k (see appendix 3 case 7). If you're above \$415k/\$207.5k you don't get any deduction.
- If no, see additional slides.

20% Deduction: Non-service Business



*Remember you will take lesser of 20% of QBI or 20% of taxable income (less capital gains)

20% Deduction: Non-service Business

Deduction* equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - W-2 wages x 25% + 2.5% of unadjusted depreciable basis

*Remember you will take lesser of 20% of QBI or 20% of taxable income (less capital gains)

20% Deduction: Non-service Business

- Taxable income (minus capital gains)
- Business income
- Business wages
- Unadjusted basis of depreciable property



20% Deduction Planning: Non-service Business

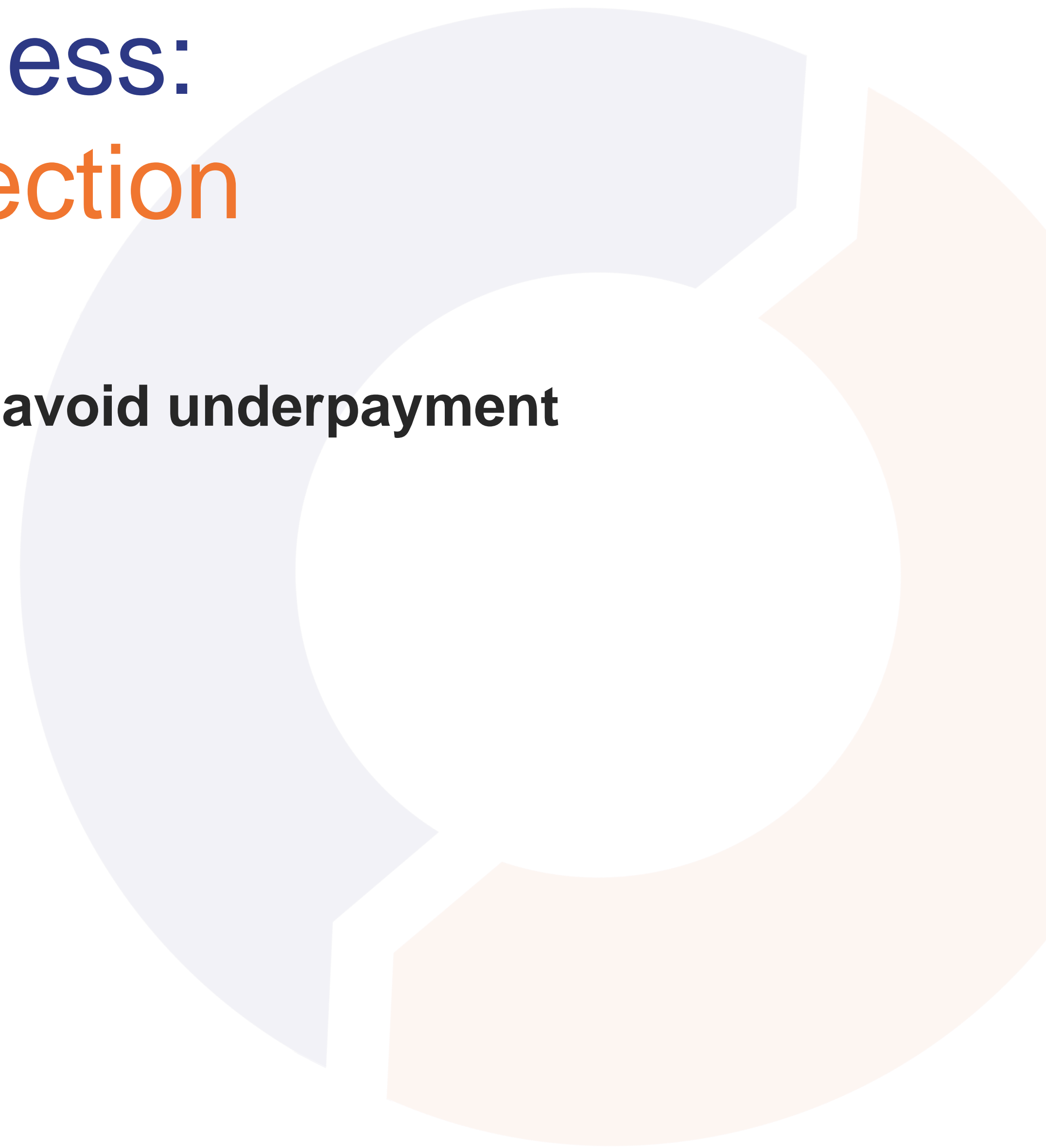
- **If over the \$315,000/\$157,000 limit (non-service business):**
 - Potentially lower guaranteed payments
 - Control revenue and expenses
 - Consider adding spouse to payroll
 - Multiple companies (combining businesses)
 - Consider increasing wages (employees vs. 1099) or lowering owner wages
 - Consider increasing fixed asset amounts (lease vs purchase)

20% Deduction Planning: Rental Real Estate Business

- **If over the \$315,000/\$157,000 limit (rental real estate business):**
 - **Remember:** Limited to 2.5% of depreciable basis plus 25% of wages
 - Consider grouping entities
 - Consider hiring full time employees
- **Like-kind exchanges (use of Delaware Trust)**
- **Depreciation bonus vs Sec 179 (need to coordinate with 20% deduction)**
- **Cost Segregation Study to obtain quicker write-off**
- **Opportunity Zone reinvestment of capital gains**
- **Active vs Passive determination**

Key Consideration for Business: Ask Accountant To Do Projection

- **Never be surprised, take multi-year approach, avoid underpayment**
- **Maximize potential 20% business deduction**
- **Never let tax drive your economic decisions**



Questions?



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Appendix 1

Individual Changes

Individual Tax Changes:

2018 Tax Table (Estates and Trusts)

%	Estates & Trusts
10%	2,550
24%	9,150
35%	12,500
37%	EXCESS

- **These are the same rates as the kiddie tax.**
- **No longer based on parent's rates.**
- **Better deal for higher income parents due to lower rates.**

Individual Tax Changes: 2018 LT Cap Gains and Qualified Dividends

%	S	HH	MFJ	MFS
0%	38,700	51,850	77,400	38,700
15%	426,700	453,350	480,050	240,025
20%	EXCESS	EXCESS	EXCESS	EXCESS

- **About the same as 2017.**

Individual Tax Changes: 2018 Standard Deduction

	2018	2017
MFJ	\$24,000	\$12,700
S	\$12,000	\$6,350
MFS	\$12,000	\$6,350
HH	\$18,000	\$9,350

Individual Tax Changes: Exemptions and “Add-ons”

The Act eliminates personal & dependent exemption deductions (2017: \$4,050)

- The Act retains the blind and disabled “add-ons” to the standard deduction (which will be \$1,300 for married taxpayers, \$1,600 for unmarried taxpayers)

Major Changes:

No exemptions but increased child credit

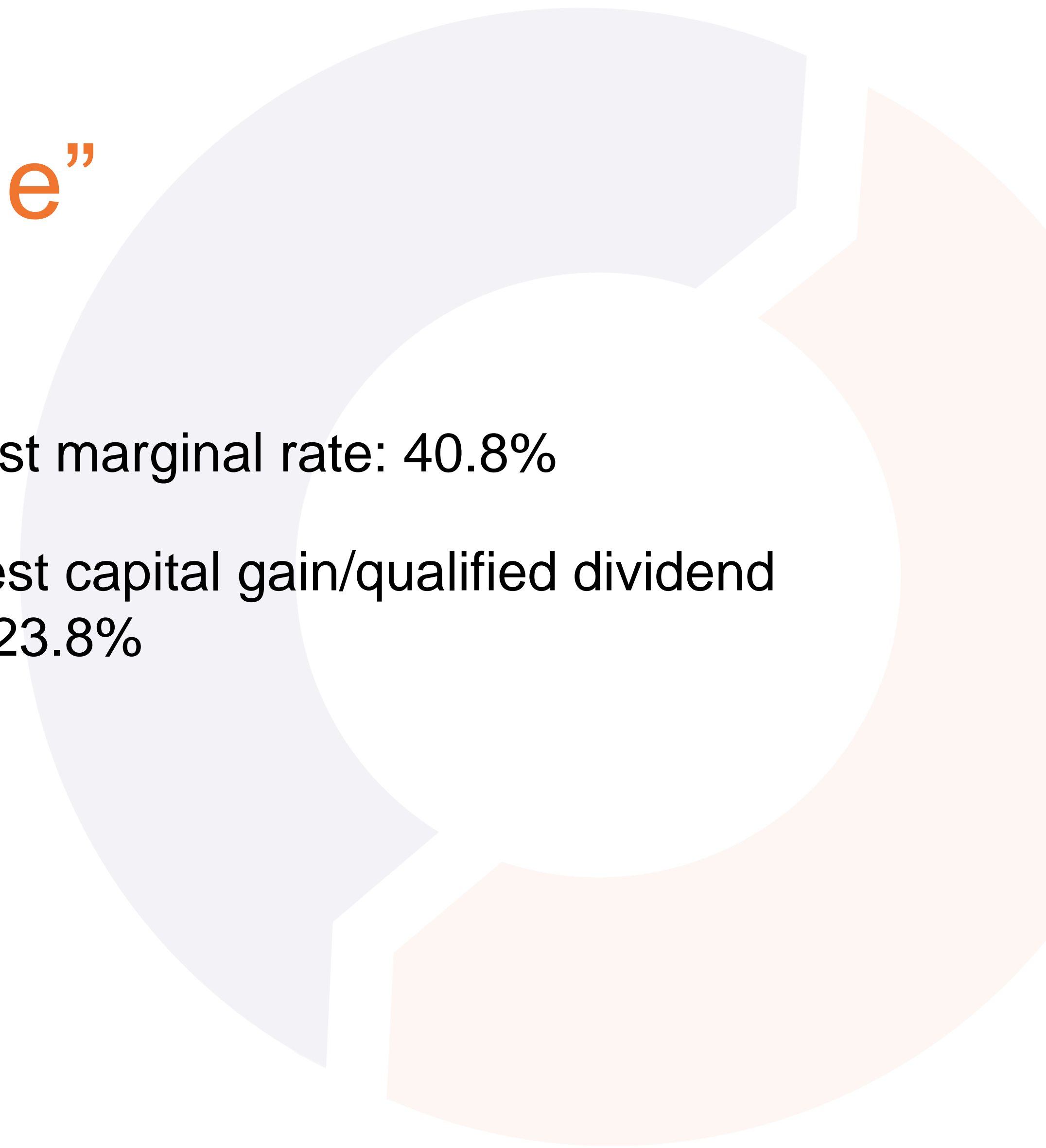
- **Exemptions have been eliminated**
- **Child credit increased from \$1,000 to \$2,000 per child (under age 17)**
 - First \$1,400 of tax credit refundable subject to phase out.
 - Phase out increased (more people are now eligible).
- **Since more people will be eligible for credit, make sure it's taken into consideration in negotiations.**

	Old Law AGI*	New Law AGI*
Married Filing Joint	\$110,000 - \$130,000	\$400,000 - \$440,000
Single	\$75,000 - \$95,000	\$200,000 - \$240,000
Married Filing Single	\$55,000 - \$75,000	\$200,000 - \$240,000
Head of Household	\$75,000 - \$95,000	\$200,000 - \$240,000

*Including adjustment for certain untaxed foreign income.

Individual Tax Changes:

ACA “Net Investment Income”

- Additional 3.8% Medicare tax on modified AGI in excess of:
 - \$250,000 MFJ
 - \$125,000 MFS
 - \$200,000 Single and Head of Household
 - Highest marginal rate: 40.8%
 - Highest capital gain/qualified dividend rate: 23.8%
- 

Individual Tax Changes: Itemized Deductions

MEDICAL

- 7.5% AGI floor for **2017** and 2018
- 10% AGI floor for 2019 and beyond

TAXES

- Maximum of \$10,000 of state and local taxes
- *Warning: Prepaid taxes treated as if paid in 2018*

Individual Tax Changes:

Itemized Deductions (continued)

CHARITY

- Remains a deduction
- 60% AGI limit for cash contributions; 30% AGI limit for non-cash contributions
- Charitable mileage rate remains at 14 cents per mile
- 5 year carry-forward continues
- Look to donor-advised funds
- Consider qualified charitable distributions from IRAs

Individual Tax Changes:

Itemized Deductions (continued)

ALL “TIER II” MISCELLANEOUS ITEMIZED DEDUCTIONS ARE REPEALED, INCLUDING:

- Employee unreimbursed business expenses
- Tax preparation fees
- Home office expenses
- Union dues
- Expenses in searching for a job
- Education and related expenses
- Uniforms and special clothing
- Expenses for the production of income

Individual Tax Changes:

IRC §529 Plans

THE ACT EXPANDS THE USE OF IRC §529 PLANS

- Now, up to \$10,000 in total per student (**NOT** per plan) can be used to pay for qualifying education expenses for kindergarten through grade 12

Individual Tax Changes:

IRC §529 Plans (continued)

THE ACT MODIFIES THE DEFINITION OF HIGHER EDUCATION EXPENSE TO INCLUDE:

- Curriculum and curriculum materials
- Books and other instructional materials
- Online educational materials
- Tuition for tutoring for educational classes outside of the home
- Educational therapies for students with disabilities

Individual Tax Changes:

Alimony

Alimony and separate maintenance payments are not deductible by the payor spouse. The House version of the bill repealed the Code provisions that specify that alimony payments are included in income. The final version of the bill follows the House bill.

- For decrees after 2018 (January 1, 2019 and after)
- Not deductible to the payer and not income to the recipient.
- New law does not apply to pre-2019 modification, unless specified.

Individual Tax Changes: Retirement Plan Changes

RE-CONVERSIONS

- Re-conversions were repealed



Individual Tax Changes:

Estate Tax

- Exemption increased To \$10,000,000, adjusted for inflation as of 2012
 - Thus, the actual exemption in 2018 will be \$11,200,000
 - This amount is doubled if the post-mortem election of “Portability” is made
- The estate tax was **NOT** repealed
- Step-up in basis (FMV at DOD) is retained (IRC §1014)

Individual Tax Changes: Alternative Minimum Tax

INDIVIDUAL AMT – **NOT REPEALED**

- Exemptions increased and will be adjusted for inflation (with phase-out thresholds increased to \$1,000,000 for MFJ taxpayers and \$500,000 for all other taxpayers)
 - Single - \$70,300
 - MFJ - \$109,400
 - MFS - \$54,700
 - HH - \$70,300



Appendix 2

Business Changes

Business Tax Changes: Interest Restrictions

CAPS AND EXCEPTIONS

- Business interest deduction is limited to 30% of gross income
- Remainder would be a carry-over to future years
- Exception for “Small Businesses”
 - Fully deductible
 - Criteria: Average gross receipts of \$25,000,000 or less

Planning for Businesses:

Entertainment & Meal Expenses

- **All direct entertainment expenses were removed**
 - Sporting events, concerts, amusement facilities, recreational facilities
- **Certain meals are 50% deductible:**
 - Client business meals, and meals at an event or club are 50% deductible provided that business is conducted at the event, the taxpayer is present, and the meal is not overly extravagant. Receipts need to show separated expenses.
 - 50% business meal deduction remains for food/meals provided for employees, including snacks and beverages at the office, meals during meetings or business travel, and meals at a seminar or conference.

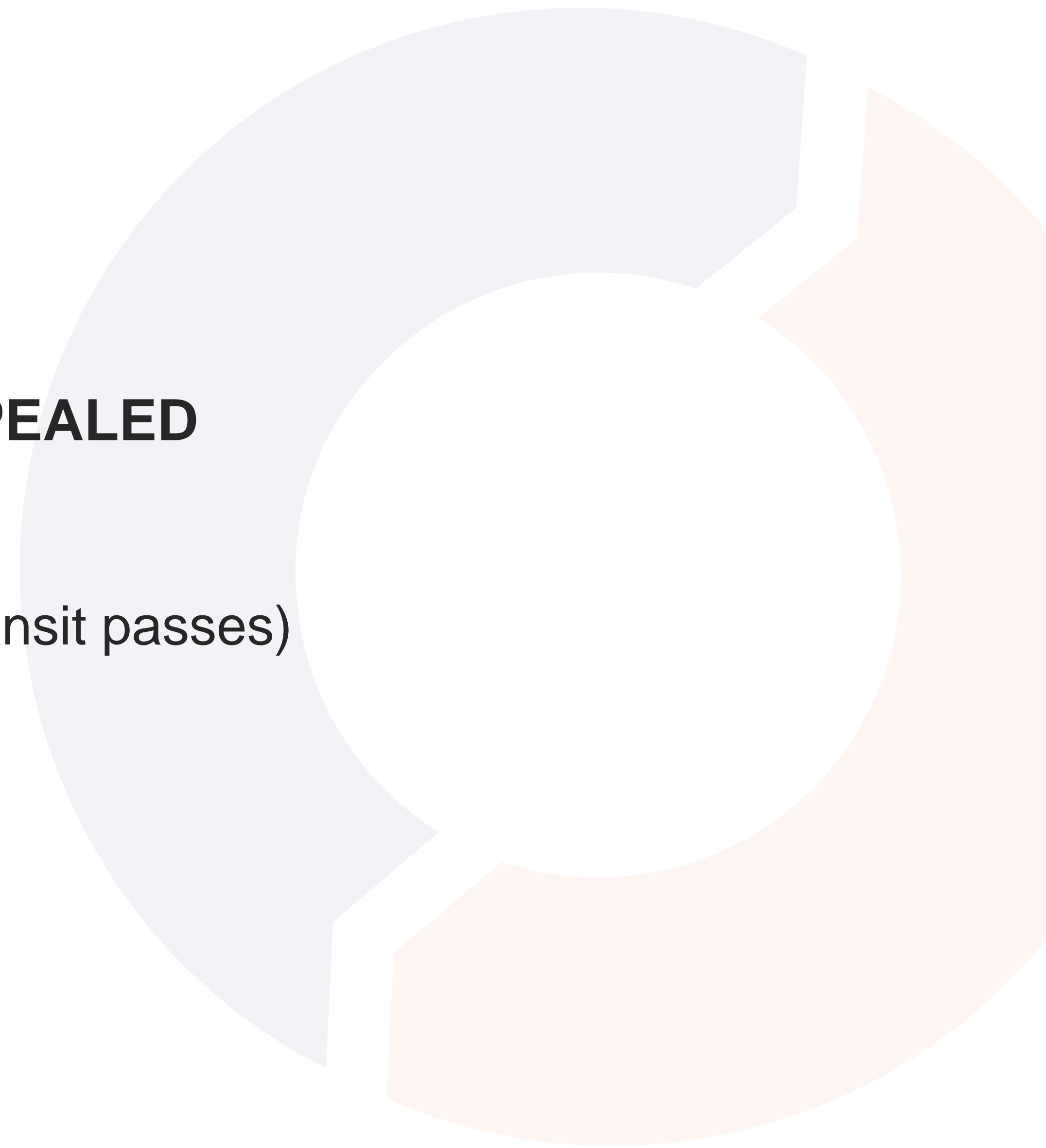
Planning for Businesses: Entertainment & Meal Expenses

- **Certain Employee Meals Are Still 100% Deductible:**
 - If the meal is included as taxable compensation to the employee
 - Expenses for office holiday parties
 - Meals provided to employees working overtime or during a staff meeting.
- IMPORTANT TIP:** Separate meals on ledger with different types of meal deductions
- Have three separate accounts set up in ledger for 100% deductible meals, 50% deductible meals, and entertainment expenses to get the highest possible tax savings

Business Tax Changes: Employee Fringe Benefits

THE FOLLOWING FRINGE BENEFITS ARE REPEALED

- Achievement awards
- Qualified transportation fringe benefits (such as transit passes)



Business Tax Changes:

Business Credits Allowed

- The Act leaves the Research and Development credit in place, but the Act requires a five-year amortization of research and development expenditures
- The Work Opportunity Credit is retained
- The Act creates a temporary credit for employees who are on family and medical leave

Deduction for Qualified Business Income:

Definition of Wages

- Wages to be considered are those paid directly by the company or wages paid by a third party to common-law employees of the company.
- Those wages can be paid by a third party payroll company or a related company under a common paymaster.
- The payroll returns must be timely filed.
- **Key Consideration:** what company are the wages economically for?

Deduction for Qualified Business Income:

Rules For Aggregation

Certain related businesses can be aggregated.

1. The same group of people must own 50% or more of each business being aggregated,
2. The common ownership must be for the majority of the year,
3. All of the items must be reported in the same tax year,
4. None of the trade or businesses are Specified Service Trades or Business, and
5. Two of the following must be satisfied (next slide):

Deduction for Qualified Business Income:

Rules For Aggregation (continued)

5. Two of the following must be satisfied:

- The trade or businesses must provide products or services that are the same (a restaurant and a food truck) or customarily offered together (a gas station and a car wash)
- The trades or business share facilities or significant centralized business elements (common personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology)
- The trades or businesses are operated in coordination with, or reliance upon one or more of the businesses in a group (supply chain interdependencies)

Deduction for Qualified Business Income:

Rules For Aggregation (continued)

- Once you aggregate, you must continue to aggregate the businesses as long as they meet the test in future years.
- Each “partner” can independently decide whether to aggregate or not.



Appendix 3

20% Deduction Examples

Deduction for Qualified Business Income: Case 3

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	50,000
• Unadjusted cost of depreciable property	0

20% of taxable income
20% of business income
50% of wages

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - W-2 wages x 25% + 2.5% of unadjusted basis

Deduction for Qualified Business Income: Case 3

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	50,000
• Unadjusted cost of depreciable property	0

20% of taxable income	\$100,000
20% of business income	40,000
50% of wages	25,000

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - W-2 wages x 25% + 2.5% of unadjusted basis

Deduction for Qualified Business Income:

Case 3 Takeaway

IF YOU ARE:

- an owner of a non-service business
- taxable income is **more** than \$415k filing joint (\$207.5k single)
- **low** wages and **low** unadjusted cost of depreciable property

THEN:

- your QBI deduction could be limited

CONSIDER:

- increasing wages by hiring full time employees, increasing owner wages, and/or timing employee bonuses, and combining businesses (if applicable)

Deduction for Qualified Business Income:

Case 4

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	100,000
• Unadjusted cost of depreciable property	0

20% of taxable income
20% of business income
50% of wages

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - W-2 wages x 25% + 2.5% of unadjusted basis

Deduction for Qualified Business Income: Case 4 Deduction

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	100,000
• Unadjusted cost of depreciable property	0

20% of taxable income	\$100,000
20% of business income	40,000
50% of wages	50,000

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - W-2 wages x 25% + 2.5% of unadjusted basis

Deduction for Qualified Business Income:

Case 4 Takeaway

IF YOU ARE:

- an owner of a non-service business
- taxable income is **more** than \$415k filing joint (\$207.5k single)
- wages are **high**

THEN:

- you will likely receive the full 20% QBI deduction

Deduction for Qualified Business Income: Case 5 (Real Estate)

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	20,000
• Unadjusted cost of depreciable property	1,000,000

20% of taxable income

20% of business income

Wages + Property Cost

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - **W-2 wages x 25% + 2.5% of unadjusted basis**

Deduction for Qualified Business Income: Case 5 Deduction (Real Estate)

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	20,000
• Unadjusted cost of depreciable property	1,000,000

20% of taxable income	\$100,000
20% of business income	40,000
Wages + Property Cost	30,000

25% of wages (5,000)

2.5% of property (25,000)

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - **W-2 wages x 25% + 2.5% of unadjusted basis**

Deduction for Qualified Business Income:

Case 5 Takeaway

IF YOU ARE:

- an owner of a non-service business
- taxable income is **more** than \$415k filing joint (\$207.5k single)
- wages are **low** w/ **medium** unadjusted cost of depreciable property

THEN:

- your QBI deduction could be limited

CONSIDER:

- increasing wages by hiring full time employees, increasing owner wages, timing employee bonuses, and/or combining businesses (if applicable)

Deduction for Qualified Business Income: Case 6 (Real Estate)

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	20,000
• Unadjusted cost of depreciable property	2,000,000

20% of taxable income

20% of business income

Wages + Property Cost

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - **W-2 wages x 25% + 2.5% of unadjusted basis**

Deduction for Qualified Business Income: Case 6 Deduction (Real Estate)

• Taxable income*	\$500,000
• Business income	200,000
• Business wages	20,000
• Unadjusted cost of depreciable property	2,000,000

20% of taxable income	\$100,000
20% of business income	40,000
Wages + Property Cost	55,000
25% of wages (5,000)	
	2.5% of property (50,000)

Deduction equals lesser of:

- QBI x 20% or
- The greater of:
 - W-2 wages x 50% or
 - **W-2 wages x 25% + 2.5% of unadjusted basis**

Deduction for Qualified Business Income:

Case 6 Takeaway

IF YOU ARE:

- an owner of a non-service business
- taxable income is **more** than \$415k filing joint (\$207.5k single)
- wages are **low** w/ **high** unadjusted cost of depreciable property

THEN:

- you will likely receive the full 20% QBI deduction

Deduction for Qualified Business Income: Case 7 (Service Businesses)

- **Taxable income***
- Business income
- Business wages
- **Unadjusted cost of depreciable property**

\$355,000

200,000

20,000

0

Is taxable income over the threshold?
\$315k/\$157.5k?

No

Deduction =
QBI x 20%

Yes

Is taxable income over the full phase-in?
\$415k/\$207.5k

*Assume no capital gains

Deduction for Qualified Business Income: Case 7 (Service Businesses)

- **Taxable income*** **\$355,000**
- Business income 200,000

Deduction Reduced
Pro-rata

Deduction for Qualified Business Income: Case 7 Deduction (Service Businesses)

• Taxable income*	\$355,000
• Business income	200,000
• Business wages	20,000
• Unadjusted cost of depreciable property	0

20% of taxable income	\$71,000
12% of business income	24,000

Step 1
 $\$415,000 - \$355,000 = \$60,000$

Step 2
 $\$60,000 / 100,000 = 60\%$

Step 3
 $60\% \times 20\% = \mathbf{12\%}$

Deduction Reduced
Pro-rata

*Assume no capital gains

Deduction for Qualified Business Income:

Case 7 Takeaway

IF YOU ARE:

- an owner of a **service** business
- taxable income is **more** than \$315k filing joint (\$157.5k single) and less than \$415k filing joint (\$207.5k single)

THEN:

- your QBI deduction will be limited

CONSIDER:

- switching to a C corporation, multiple entity structure where a portion of the business a C corporation, and/or timing of expenses

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