



# **Passthrough Business Deduction**

## *Section 199A Selected Overview*

**By**

**Danny C. Santucci**

The author is not engaged by this text, any accompanying electronic media, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason, the accuracy and completeness of this information and the author's opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.

*This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.*

*—From a Declaration of Principles jointly adopted by a committee of the American Bar Association and a Committee of Publishers and Associations.*

**Copyright January 2020**

**Danny Santucci**

# Table of Contents

Section 199A .....	1
Overview .....	1
Two Deductions.....	2
Passthrough Entities Deduction - 199A(a) .....	2
Definition.....	2
Agricultural & Horticultural Cooperatives Deduction - §199A(g).....	3
Specified Cooperative Definition .....	3
Exclusions, Limits, & Restrictions .....	4
Specified Service Trade or Business Exclusion .....	4
Wage/Capital Limit .....	4
Overall Ceiling Limit - The Final Frontier .....	4
Restrictions & Special Rules .....	5
Deduction Amount - §199A(a).....	5
Overall Ceiling Limit.....	6
Combined Qualified Business Income Amount - §199A(b).....	6
Deductible Amount Under §199A(b)(2).....	6
Wage/Capital Limit .....	7
Income Equal to or Less Than Threshold - §§199A(b)(3)(A).....	7
Income Above Threshold but Below Addition - §199A(b)(3)(B).....	8
Income Above Threshold Plus Addition - §199A(b)(2).....	10
W-2 Wages.....	12
Qualified Property .....	12
Qualified Business Income (QBI) - §199A(c)(1) .....	15
Carryover of Losses for Negative Total QBI - §199A(c)(2) .....	15
Qualified Items of Income, Gain, Deduction, & Loss - §199A(c)(3) .....	16
Exclusions from Qualified Items - §199A(c)(3)(B).....	17
Reasonable Compensation & Guaranteed Payments - §199A(c)(4).....	18
REIT Dividends & Publicly Traded Partnership Income .....	18
Qualified Trade or Business - §199A(d).....	19
Definition of Trade or Business - §1.199A-1(b)(14) .....	19
Rental Real Estate Activities as a Trade or Business .....	19
Notice 2019-7 - Proposed Safe Harbor.....	19
Aggregation - Grouping Multiple Activities.....	20
Specified Service Trade or Business Exclusion from Definition .....	21
Application of the Exclusion - Three Results .....	24
Below the Threshold Amount.....	25
Calculation Review .....	25
In Excess of the Threshold Amount Plus \$50,000 or \$100,000 .....	26
Within the Phase-in Range .....	26
Phase-in Range.....	27
Applicable Percentage - §199A(d)(3)(B).....	27
De Minimis Exclusion for Small Amounts of Specified Service.....	28
Agricultural & Horticultural Cooperatives - §199A(g) .....	29
Cooperative Definition .....	29
Domestic Business - 199A(c)(3)(A)(i) .....	30