

# Qualified Business Income Deduction



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## Qualified Business Income Deduction (QBID)

You may deduct up to 20% of qualified business income from a partnership, S corporation, LLC, or sole proprietorship. In the case of a partnership or S corporation, the deduction applies at the partner or shareholder level. The business must be conducted within the United States. Special rules apply to specified agricultural or horticultural cooperatives.

Generally, income from rental real property held for investment purposes and reported on Schedule E (Form 1040) is not eligible for the QBID. However, you may be eligible for the QBID, if you are operating the activity as a real estate business. In addition, you may qualify for the QBID for a rental real estate enterprise if you provided 250 hours or more per year of rental services to the enterprise.

The QBID reduces taxable income, not adjusted gross income (AGI). Also, it does not reduce self-employment income. The deduction is available to both non-itemizers and itemizers.

A limitation based on Form W-2 wages and property of the business is phased in when the taxpayer's taxable income (computed without regard to the deduction) exceeds a threshold amount.

When your taxable income exceeds the top of the threshold amount phase-in range, the QBID is disallowed with respect to a specified service trade or business (SSTB).

## Threshold Amount

Qualified business income is subject to limitations for individuals with taxable income exceeding the threshold amount. If your taxable income is above the threshold amount, you must apply a limitation, which reduces the QBID. If your taxable income is under the threshold amount, then do not apply any limitation.

## 2023 Threshold Amount and Phase-In Range

	Single, HOH Taxable Income	MFJ Taxable Income	MFS Taxable Income
Threshold Amount	\$182,100	\$364,200	\$182,100
Phase-in Range	\$182,101 – \$232,100	\$364,201 – \$464,200	\$182,101 – \$232,100
Full limitation applies*	\$232,101	\$464,201	\$232,101

\* For specified service trade or business (SSTB), no QBID.

## Form W-2 Wages/Property Limitation

If your taxable income is at least \$50,000 (\$100,000 for MFJ) above the threshold amount, the 20% QBID cannot exceed the Form W-2 wages/qualifying property limit.

The Form W-2 wages/qualifying property limit is the greater of:

- 50% of Form W-2 wages paid by the business, or
- The sum of 25% of Form W-2 wages paid by the business, plus 2.5% of the unadjusted basis immediately after acquisition of all qualified property of the business.

**Example:** Mike operates a sole proprietorship that makes beef jerky. His qualified business income for 2023 was \$180,000 and his taxable income is \$225,000. The business bought a new high-tech dehydrator for \$100,000 and placed the dehydrator in service in 2023. Mike has one employee and paid total wages of \$20,000 for the year.

Mike's QBID is \$10,000, which is the lesser of:

- 20% of his business income (\$36,000), or
- Form W-2 wages/property limit (\$10,000), which is the greater of:
  - 50% of Form W-2 wages (\$20,000 × 50% = \$10,000), or
  - Sum of 25% of Form W-2 wages (\$5,000) plus 2.5% of the basis of the dehydrator (\$100,000 × 2.5% = \$2,500), which equals \$7,500.