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Dear Day Seckler Client,

Previously you received an email from us regarding the recently enacted Tax Cuts and Jobs Act. Our records indicate that your 2017 tax return included a Schedule C or E. Under the new tax law, there is a significant new tax deduction for individuals with "qualified business income ("QBI")."

The deduction is 20% of your QBI from a partnership, S corporation, or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to your trade or business. The business must be conducted within the U.S. to qualify, and specified investment-related items are not included, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). The trade or business of being an employee does not qualify. Also, QBI does not include reasonable compensation received from an S corporation, or a guaranteed payment received from a partnership for services provided to a partnership's business.

The deduction is taken "below the line," i.e., it reduces your taxable income but not your adjusted gross income. But it is available regardless of whether you itemize deductions or take the standard deduction. In general, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain. If QBI is less than zero it is treated as a loss from a qualified business in the following year.

Rules are in place (discussed below) to deter high-income taxpayers from attempting to convert wages or other compensation for personal services into income eligible for the deduction.

An exclusion from QBI of income from "specified service" trades or businesses is phased in for taxpayers with taxable income above $157,500 ($315,000 for joint filers). These are businesses involving the performance of services in the fields of health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners.

Additionally, for taxpayers with specified service or business taxable income more than the above thresholds, a limitation on the amount of the deduction is phased in based either on 50% wages paid with respect to the qualified trade or business, or the sum of 25% of such wages plus a capital element (2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real estate))..

Obviously, the complexities surrounding this substantial new deduction can be formidable. If you wish to work through the mechanics of the deduction with me, with particular attention to the impact it can have on your specific situation, please give us a call.

Very truly yours,

Your Day Seckler Tax Team