



# Qualified Business Income Deduction



## 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.

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### 2025 Threshold Amount and Phase-In Range

	<i>Single, HOH, QSS, Taxable Income</i>	<i>MFJ, QSS Taxable Income</i>	<i>MFS, QSS Taxable Income</i>
<b>Threshold Amount</b>	\$197,300	\$394,600	\$197,300
<b>Phase-in Range</b>	\$197,301 – \$247,300	\$394,601 – \$494,600	\$197,301 – \$247,300
<b>Full limitation applies*</b>	\$247,301	\$494,601	\$247,301

\* 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 2025 was \$180,000 and his taxable income is \$250,000. The business bought a new high-tech dehydrator for \$100,000 and placed the dehydrator in service in 2025. 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.



## Qualified Business Income Deduction (QBID)

### Qualified Trade or Business

A qualified trade or business includes any trade or business for which you are allowed a deduction for ordinary and necessary business expenses.

**Exceptions:** A trade or business does not include the following:

- Trades or businesses conducted through a C corporation,
- Wages earned as an employee, and
- SSTBs for taxpayers with taxable income above the threshold. See the *2025 Threshold Amount and Phase-In Range* chart, earlier.

**Specified service trade or business (SSTB).** An SSTB is any trade or business providing services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any other trade or business where the taxpayer receives fees, compensation, or other income for endorsing products or services, for the use of the taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the taxpayer's identity, or for appearing at an event or on radio, television, or another media format.

In addition, the trades or businesses of investing and investment management, trading or dealing in securities, partnership interests, or commodities are specified trades or businesses. An SSTB specifically excludes architects and engineers.

If your taxable income is at least \$50,000 (\$100,000 if MFJ) above the threshold, all of the net income from an SSTB is excluded from qualified business income.

If taxable income is within the phase-in range, the amount excluded is computed by determining a percentage that reflects the excess of taxable income over the threshold amount in a fraction over \$50,000 (\$100,000 MFJ).

**Example:** June is an attorney with taxable income of \$210,600. Her qualified business income is \$153,000. Her business is an SSTB and her taxable income is over the threshold amount, therefore her QBID is limited. Her phase-in reduction is computed:

$$(\$210,600 - \$197,300) \div \$50,000 = 26.6\%$$

Qualified business income of \$153,000 is reduced by \$56,020 (\$210,600  $\times$  26.6%) which equals \$96,980.

June's QBID is \$19,396 (\$96,980  $\times$  20%).

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### Qualified Business Income (QBI)

QBI is determined separately for each qualified trade or business. QBI includes items of income, gain, deduction, and loss from your trades or businesses, including income from partnerships (other than PTPs), S corporations, sole proprietorships, and certain estates and trusts that are included or allowed in determining taxable income for the year. Consider all items that are related to the trade or business, including, but not limited to, unreimbursed partnership expenses, business interest expense, deductible part of SE tax, self-employed health insurance deduction, and contributions to qualified retirement plans.

QBI does not include any of the following.

- Items not properly included in income.
- Investment items such as capital gains or losses, dividends, or interest income.
- Wage income (except statutory employees).
- Foreign income not effectively connected with the conduct of business within the United States.
- Certain commodities transactions or foreign currency gains or losses.
- Certain income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Reasonable compensation from an S corporation.
- Guaranteed payments.
- Payments received by a partner for services other than in a capacity as a partner.
- Qualified REIT dividends.
- Qualified PTP income.

**Note:** Although REIT/PTP dividends are not considered QBI, there is a deduction for 20% of qualified REIT/PTP dividends as an additional component of QBID.

If the net amount of QBI from all qualified trades or businesses during the taxable year is a loss, it is carried forward. Any deduction allowed in a subsequent year is reduced (but not below zero) by 20% of any carryover qualified business loss.

### Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 73.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.