

## How Does the New 20% Qualified Business Income Deduction Work?

*By Roman Androsov*

On December 22, 2017 a tax reform bill introduced to the 115th Congress of the United States of America by Rep. Kevin Brady of Texas in early November was signed into law and became known as the Tax Cuts and Jobs Act (TCJA). The full text of the law is available here [ <https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf> ]. TCJA is effective for the taxable years beginning after December 31, 2017 and in its 185 pages amends a few of the Internal Revenue Code (IRC) sections. Parts of the bill that deal with the business income taxation (such as “Subtitle A Part II- Deduction for Qualified Business Income of Pass-Thru Entities” which added Sec.199A to the IRC) are permanent changes while the portions that deal with the individual tax reform are temporary and would expire after 2025. Arguably, nothing is more permanent than a temporary solution and the honorable men and women of the 124th Congress of the United States of America have been dealt a tough hand by their older colleagues.

TCJA has received a lot of publicity before and after becoming the law and a few review articles describing its effect are available in the public domain. We recommend taking a look at:

- “Making Sense Of The New 20% Qualified Business Income Deduction” by Tony Nitty of Tax Geek Tuesday for a great Q&A style analysis of Sec. 199A  
<http://www.forbes.com/sites/anthonymitti/2017/12/26/tax-geek-tuesday-making-sense-of-the-new-20-qualified-business-income-deduction/#3f75e99744fd>
- “The Games They Will Play: Tax Games, Roadblocks, and Glitches Under the New Legislation” by a group of the tax law professors if you are curious to see why some professional service employers might start “cracking” and “packing” their businesses [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3089423](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3089423)

The Department of the Treasury and the Internal Revenue Service will have their hands full for the next few months/years working on the regulations.

The intent of this article is to review most of the terms introduced in the new Sec. 199A and look at how it may affect the tax incentives for the small employer retirement plans, something we are all very concerned about.

**New Terms**

**Threshold Amount (TA) is**

- \$157,500 if filing status is single
- \$315,000 if filing status is joint

Note that the threshold amount will be adjusted for inflation in 2019 and future years.

**Phase-in Limit (PiL) is**

- \$50,000 if filing status is single
- \$100,000 if filing status is joint

Note that the phase-in limit will not be adjusted for inflation in 2019 and future years.

**Taxable Income (TI)** is defined as the Adjusted Gross Income of the taxpayer in IRC Sec. 62(a) [ <https://www.law.cornell.edu/uscode/text/26/62> ] reduced by the Standard Deduction or Itemized Deduction but without regard to the deduction allowable under this Sec. 199A.

**Applicable Percentage (AP)** is  $100\% - \frac{(TI - TA)}{PiL}$  but not less than 0%.

For example:

- a joint tax return filer with 2018 **TI** of \$315K or less will have the **AP** of 100%
- a joint tax return filer with 2018 **TI** of \$325K will have the **AP** of 90% (computed as  $100\% - (\$325K - \$315K) / \$100K$ )
- a joint tax return filer with 2018 **TI** of \$405K will have the **AP** of 10% (computed as  $100\% - (\$405K - \$315K) / \$100K$ )
- a joint tax return filer with 2018 **TI** of \$415K or more will have the **AP** of 0%

So the closer the **TI** to the upper limit of the **TA** to **TA+ PiL** income range the lower the **AP** would be.

**Qualified Items of Income, Gain, Deduction, and Loss (QIIGDL)** are defined as items of income, gain, deduction, and loss that are:  
 (i) effectively connected with the conduct of a trade or business within the United States and  
 (ii) included and allowed in determining **TI** of the taxpayer in the taxable year

So deductions for contributions to a qualified retirement plan sponsored by the taxpayer’s business entity would reduce **QIIGDL**. Note that a number of investment related items that are of interest/importance to the CPA (such as short-term and long-term capital gain/loss, certain dividend and interest income, etc.) are not included in the **QIIGDL**.

**W-2 wages (W2W)** is the amount described in paragraphs (3) and (8) of IRC Sec. 6051(a) [ <https://www.law.cornell.edu/uscode/text/26/6051>] paid by the taxpayer with respect to employment of employees by such person during the calendar year ending during such taxable year. This is essentially W-2 compensation (including elective deferrals under Sec. 401(k)) that was paid by the trade or business to the taxpayer or any other employees.

**Specified Service Trade or Business (SSTB)** is defined as any trade or business which is either

- described in IRC Sec.1202(e)(3)(A)[<https://www.law.cornell.edu/uscode/text/26/1202>] *but applied without regard to the words engineering and architecture*
- or involves the performance of services that consist of investing/managing/trading/dealing in securities/partnership interests/commodities as described in IRC Sec. 475(c) and (e) [ <https://www.law.cornell.edu/uscode/text/26/475> ]

That means that a trade or business in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investment management or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners is an **SSTB**. Note that engineering and architecture are explicitly excluded from being a **SSTB**. This definition would likely need additional clarification under regulations.

**Qualified Trade or Business (QTB)** means any trade of business that is

- not a **SSTB** or
- is **SSTB** but only if the **TI** of the taxpayer is less than the **TA + PiL**. However, only the **AP** of **QIIGDL**, **W2W** and the unadjusted basis immediately after acquisition of qualified property of the taxpayer allocable to such **SSTB** shall be taken into account in computing the qualified business income. Note that the terms “qualified property” (defined in Sec. 199A(b)(6)) and “unadjusted basis immediately after acquisition” are very well explained in Tony Nitty’s article reference above. The term “qualified business income” is defined below.

For 2018 it means that the **TI** of the taxpayer who gets pass-thru income from a **SSTB** would need to be less than \$207,500 for a single filer (\$415,000 for a joint filer) for that business to be considered a **QTB**. The closer the **TI** is to the \$207,500 (\$415,000) limit the smaller the portion of the **QIIGDL** and **W2W** that the Sec. 199A deduction and limit are based on will get!

**Qualified Business Income (QBI)** is the net amount of **QIIGDL** with respect to any **QTB** of the taxpayer but excluding the following items:

- reasonable compensation for services rendered with respect to the trade of business
- guaranteed payment described in IRC Sec. 707(c) [ <https://www.law.cornell.edu/uscode/text/26/707> ] paid to a partner for services rendered with respect to the trade or business
- to the extent provided in regulations, any payment described in IRC Sec. 707(a) [ <https://www.law.cornell.edu/uscode/text/26/707> ] to a partner for services rendered with respect to the trade or business
- qualified REIT dividends (QReD), qualified cooperative dividends (QCoD), qualified publicly traded partnership income (QPuTPI). Note that QReD, QCoD and QPuTPI are defined in Sec.199A(e) and are of little interest for our purposes.

Note that W-2 compensation paid to the owner of an S-Corp or the guaranteed payments made to the partners do not count towards **QBI**.

**W2W Based Limit (W2WBL)** is the greater of two components:

- Component (i): 50% of **W2W** w.r.t the **QTB**
- Component (ii): 25% of **W2W** w.r.t the **QTB** + 2.5% of unadjusted basis immediately after acquisition of all qualified property

This term is not defined in the law explicitly but is useful in understanding the mechanics of the law.

**Combined Qualified Business Income Amount (CQBIA)** is a sum of two components:

- Component A: 20% of **QBI** reduced based on the level of **TI** as explained below
- Component B: 20% of QReD+QPuTPI with no limit

Component A is limited by the level of **W2W** w.r.t. **QTB** depending on the level of the **TI** of the taxpayer as follows:

- if **TI < TA** then there is no limit
- if **TI > (TA+PiL)** then the limit is **W2WBL**
- if **(TA ≤ TI ≤ TA+PiL)** and **W2WBL < 20% x QBI** then Component A is calculated as follows:

$$(20\% \times \text{QBI}) - (20\% \times \text{QBI} - \text{W2WBL}) \times \frac{(\text{TI} - \text{TA})}{\text{PiL}}$$

This is not easy to comprehend. If one recalls the definition of the **AP** above and does some basic math then this expression can be rewritten as:

$$(20\% \times \text{QBI}) \times \text{AP} + \text{W2WBL} \times (1 - \text{AP})$$

and understood as follows: if **W2WBL** is lower than  $20\% \times \text{QBI}$  then as the taxpayer's **TI** increases from the level of **TA** to the level of **TA+PiL** their **AP** decreases from 100% to 0% and a smaller portion of the otherwise available full amount of pass-thru income ( $20\% \times \text{QBI}$ ) is available for Sec. 199A deduction and the more **W2WBL** matters as the limiting factor on the Sec. 199A deduction.

Note that if the  $\text{TI} < \text{TA}$  then the result is  $20\% \times \text{QBI}$  and if  $\text{TI} > \text{TA} + \text{PiL}$  then the result is **W2WBL**.

Finally, Sec. 199A deduction that is allowed to a taxpayer other than a corporation is a sum of two components:

- Component 1:  $\min(\text{CQBIA}, 20\% \times (\text{TI} - \text{NCG} - \text{QCoD}))$
- Component 2:  $\min(20\% \times \text{QCoD}, \text{TI} - \text{NCG})$

with the total limited to  $\text{TI} - \text{NCG}$ .

NCG stands for Net Capital Gains and you may catch up on what it means here [ <https://www.irs.gov/taxtopics/tc400/tc409> ].

**Analysis**

If you are still reading, in our analysis we are going to assume that a non-corporate taxpayer and their trade or business have:

- an ability to make a contribution to a qualified retirement plan in the amount of **C** on behalf of the taxpayer
- **TI** that is a sum of two components: **QIIGDL** amount (prior to reduction by **C**) and other income (**OI**).
- no “qualified property”
- $QReD = QPuTPI = QCoD = NCG = \$0$

For such a taxpayer then:

- Component 2 of the Sec. 199A deduction and Component B of the **CQBIA** will be \$0
- Component (ii) of the **W2WBL** will always be less than Component (i)

So for any trade or business that is a **QTB** Sec. 199A deduction will be:

$$\min(\mathbf{CQBIA}, 20\% \times \mathbf{TI}) = \min(20\% \times \mathbf{QBI}, 20\% \times (\mathbf{QIIGDL} + \mathbf{OI}))$$

We are going to look at two scenarios based on the level of the **TI** (prior to reduction by **C**) of the taxpayer relative to the **TA** and **TA+PiL** levels.

**Scenario 1: TI < TA**

For 2018 that means that the **TI** (prior to reduction by **C**) is below \$157,500 for a single taxpayer and below \$315,000 for a joint filer.

In this case the trade or business is a **QTB** (whether it’s a **SSTB** or not) and **QBI= QIIGDL** (as **AP** is 100% if it is a **SSTB** and is not applicable if it is a non-**SSTB**)

Sec. 199A deduction is available and is:

$$\min(20\% \times \mathbf{QIIGDL}, 20\% \times (\mathbf{QIIGDL} + \mathbf{OI})) = 20\% \times \mathbf{QIIGDL} \quad (\text{since } \mathbf{OI} \geq \$0)$$

There is no limit on the Sec. 199A deduction.

The amount subject to the federal income tax (**FIT**) is:

$$\mathbf{TI} - 20\% \times \mathbf{QIIGDL} = \mathbf{QIIGDL} + \mathbf{OI} - 20\% \times \mathbf{QIIGDL} = \mathbf{OI} + 80\% \times \mathbf{QIIGDL}$$

Making a contribution of **C** will reduce **QIIGDL** and the amount subject to **FIT** to:

$$\text{OI} + 80\% \times (\text{QIIGDL} - \text{C})$$

If **C** is less than **QIIGDL** then the amount subject to **FIT** would get reduced by 80% of **C** and deferring **C** into post-retirement without a more than 20% reduction in the future marginal tax rate may make little sense to the taxpayer. If **C** is greater than **QIIGDL** and the excess amount can be used to reduce **OI** of the taxpayer then a lower than 20% reduction in the future marginal tax rate would be necessary. However, given that the **TI** of the taxpayer is not very high in this scenario the costs associated with maintaining the plan (especially in the case of a single taxpayer) may offset the tax savings.

**Example 1:** A single taxpayer Joe Carpenter has **TI** of \$150K comprised of **QIIGDL** of \$50K and **OI** of \$100K.

If Joe contributes \$0 to a qualified retirement plan then his Sec. 199A deduction will be 20% x \$50K = \$10K and the **FIT** amount will be:  
 $\$14,089.50 + 24\% \times ((\$150,000 - \$10,000) - \$82,500) = \$27,889.50$  (which is 18.59% of \$150,000)

If Joe elects to contribute \$25K to the qualified retirement plan then his Sec. 199A deduction will be 20% x \$25K = \$5K and the **FIT** amount will be:

$$\$14,089.50 + 24\% \times ((\$150,000 - \$25,000 - \$5,000) - \$82,500) = \$23,089.50 \text{ (which is 15.39\% of } \$150,000)$$

The reduction in the **FIT** amount is \$4,800 which is 19.20% of the \$25K contribution. If Joe stays in the same income bracket (between \$82,500 and \$157,500 adjusted for inflation) in post-retirement the \$25K in retirement income will be taxed at the same 24% marginal tax rate. If his income drops one level (between \$38,700 and \$82,500 adjusted for inflation) the marginal tax rate will be 22%. In both cases Joe will likely end up paying more in **FIT** over his lifetime. If the 124th Congress lets the individual income tax provision of TCJA sunset in 2025 then the effect of making contributions to the qualified retirement plan from the **FIT** savings perspective could be even worse.

However, if Joe resides in one of the high state income tax states (e.g. CA (13.3%), OR (9.9%), MN (9.85%)) and the total of the SALT and mortgage interest deductions exceed the \$12K standard deduction so that it makes sense for him to itemize then the contribution could be used to reduce income subject state income tax so that no SALT deduction is lost due to the \$10K limit. So the pension contribution may have a positive effect on the amount of the federal and state income taxes paid over his lifetime in this case.

**Scenario 2: TI > TA+PiL**

For 2018 that means that the **TI** (prior to reduction by **C**) is over \$207,500 for a single taxpayer and over \$415,000 for a joint filer.

In this case the trade or business is a **QTB** only if it's not a **SSTB**.

Non-SSTB taxpayer

First, let's assume the trade or business is not a **SSTB**.

Sec. 199A deduction is available and is:

$$\min ( 20\% \times \mathbf{QBI}, 20\% \times (\mathbf{QIIGDL} + \mathbf{OI}) ) = 20\% \times \mathbf{QIIGDL} \quad (\text{since } \mathbf{QBI} = \mathbf{QIIGDL} \text{ and } \mathbf{OI} \geq 0)$$

but it is limited to:

$$\min ( 50\% \times \mathbf{W2W}, 20\% \times (\mathbf{QIIGDL} + \mathbf{OI}) )$$

If  $\mathbf{W2W} < 40\% \times \mathbf{QIIGDL}$  then wages are a limiting factor on the Sec. 199A deduction. The effect of making contribution of **C** is as follows:

- if **C** does not reduce **TI** enough to bring it below the **TA+PiL** level then the income subject to **FIT** pre-contribution is:

$$\mathbf{OI} + \mathbf{QIIGDL} \quad - \quad \min( 20\% \times \mathbf{QIIGDL} , 50\% \times \mathbf{W2W} )$$

Post-contribution it is:

$$\mathbf{OI} + (\mathbf{QIIGDL} - \mathbf{C}) \quad - \quad \min( 20\% \times (\mathbf{QIIGDL} - \mathbf{C}), 50\% \times \mathbf{W2W} )$$

So the reduction in the income subject to the **FIT** will be:

$$\mathbf{C} + \min( 20\% \times (\mathbf{QIIGDL} - \mathbf{C}), 50\% \times \mathbf{W2W} ) - \min( 20\% \times \mathbf{QIIGDL}, 50\% \times \mathbf{W2W} )$$



This means that:

- If  $0 < C < 60\% \times \text{QIIGDL}$  then the income amount subject to **FIT** gets reduced dollar for dollar.
- If  $60\% \times \text{QIIGDL} < C < \text{QIIGDL}$  then  $20\% \times (\text{QIIGDL} - C) < 50\% \times \text{W2W}$  and each additional dollar of **C** in excess of  $60\% \times \text{QIIGDL}$  will only reduce the income amount subject to **FIT** by eighty cents.
- If  $C > \text{QIIGDL}$  and the excess amount can be used to reduce **OI** then each additional dollar of **C** in excess of **QBI** will reduce the amount subject to **FIT** dollar for dollar.

So for this taxpayer making a qualified plan contribution would make sense when **W2W** wrt **QTB** are sufficiently low relative to the **QIIGDL** level. However, the effect of the **FIT** savings start diminishing as **C** gets greater than 60% of **QIIGDL**.

If  $\text{W2W} \geq 40\% \times \text{QIIGDL}$  then the wages are not a limiting factor on Sec. 199A deduction (since  $\text{OI} \geq 0$ ). The effect of making contribution of **C** is the same as in Scenario 1.

SSTB taxpayer

Now, let's assume the trade or business is a **SSTB**. Since the **TI** of the taxpayer is in excess of the **TA + PiL** their business is not a **QTB** and Sec. 199A deduction is not available. As long as the contribution **C** does not reduce **QIIGDL** enough to bring the **TI** of the taxpayer post-contribution below the **TA+PiL** level the amount subject to **FIT** will get reduced dollar for dollar for the full amount of **C** but the Sec.199A deduction remains out of reach. Making contribution to the plan makes sense if the post-retirement marginal tax rate is expected to be lower than the current marginal tax rate. This likely would be the case as **TI** must be higher than  $\$207,500 + C$  for a single status ( $\$415,000 + C$  for a joint status). Also, taxpayers at such income levels are likely to itemize deductions and the ability to use **C** to not lose any SALT due in excess of the \$10K limit would be another positive factor for making pension contributions!

What happens if the contribution **C** is high enough to reduce **QIIGDL** so that **TI** post-contribution is below the **TA+PiL** level or **TI** is already in the **TA** to **TA+PiL** range?

That would make the **SSTB** of the taxpayer to be a **QTB** and would make Sec. 199A deduction available to them. However, only the **AP** of the **QIIGDL** and **W2W** could be taken into account for the purposes Sec. 199A.

Sec 199A deduction amount will be:

$$20\% \times \text{QBI} = 20\% \times (\text{QIIGDL} - C) \times \text{AP}$$

and it would be limited to:

$$\min(20\% \times (\text{QIIGDL} - \text{C}) \times \text{AP} \times \text{AP} + 50\% \times \text{W2W} \times \text{AP} \times (1 - \text{AP}), 20\% \times [(\text{QIIGDL} - \text{C}) \times \text{AP} + \text{OI}])$$

If we do some math the limit can be expressed as:

$$\min( [20\% \times (\text{QIIGDL} - \text{C}) - 50\% \times \text{W2W}] \times \text{AP}^2 + 50\% \times \text{W2W} \times \text{AP}, 20\% \times [(\text{QIIGDL} - \text{C}) \times \text{AP} + \text{OI}])$$

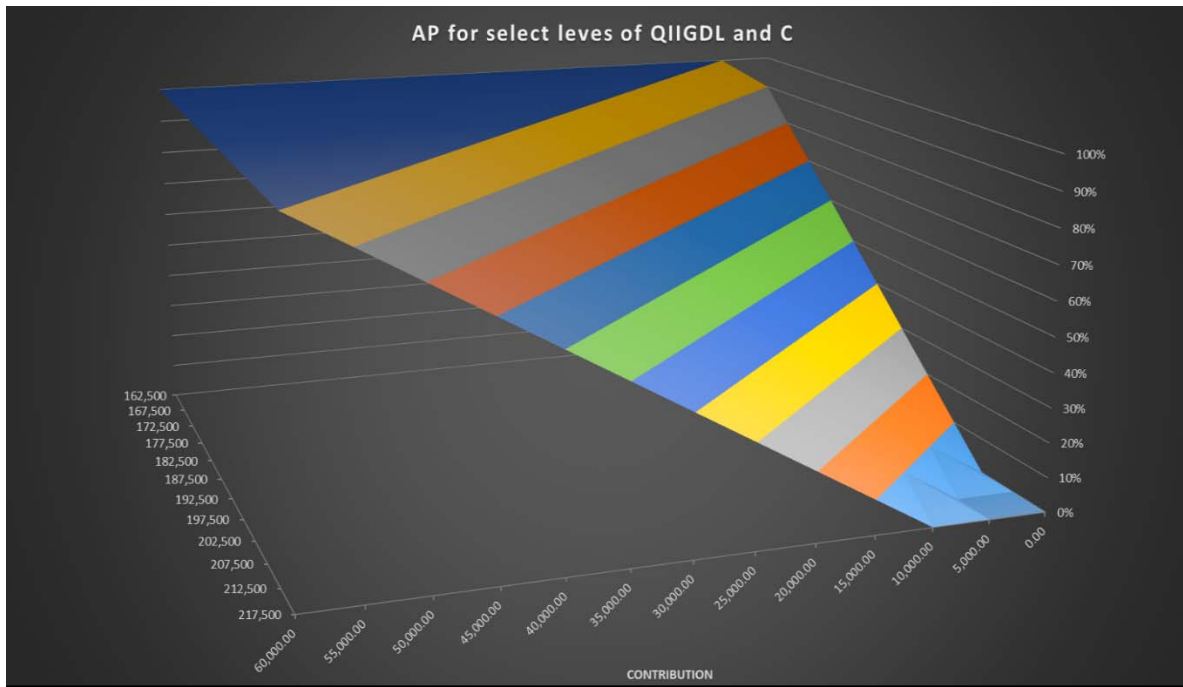
It is not clear if the Congress intended to go parabolic on the Sec. 199A deduction limit for the **SSTB** owners with the  $0\% < \text{AP} < 100\%$  or not but that is what appears to be going on.

If there is no **W2W** wrt the **QTB** then the limit on the Sec. 199A deduction will be:

$$\min(20\% \times (\text{QIIGDL} - \text{C}) \times \text{AP}^2, 20\% \times (\text{QIIGDL} - \text{C}) \times \text{AP} + 20\% \times \text{OI}) = 20\% \times (\text{QIIGDL} - \text{C}) \times \text{AP}^2 \text{ (since } \text{AP} < 1 \text{ and } \text{OI} \geq 0)$$

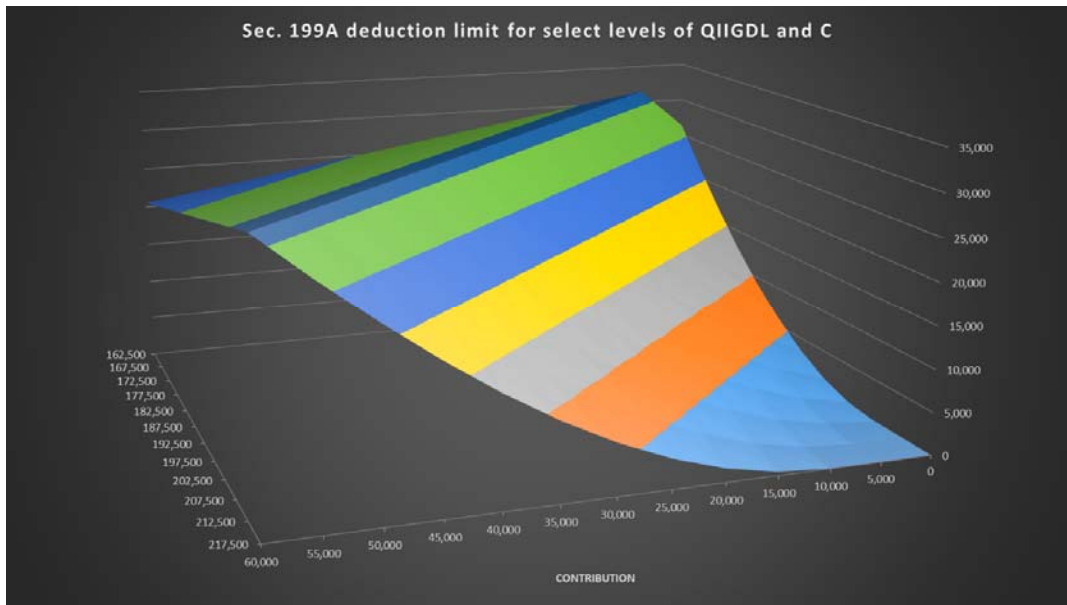
If **C** is such that it reduces **QIIGDL** to a level that results in the **TI** barely below the **TA+PiL** level then the **AP** will be low but **AP**<sup>2</sup> will be even lower and the Sec. 199A deduction limit will be extremely low!

However, as **C** increases further so that **TI** gets reduced more then the Sec. 199A deduction limit increases rapidly as illustrated in the following charts (generated for a single taxpayer with **QIIGDL** in the \$162,500 to \$212,500 range, **OI** of \$0 and **C** in the \$0 to \$60,000 range):



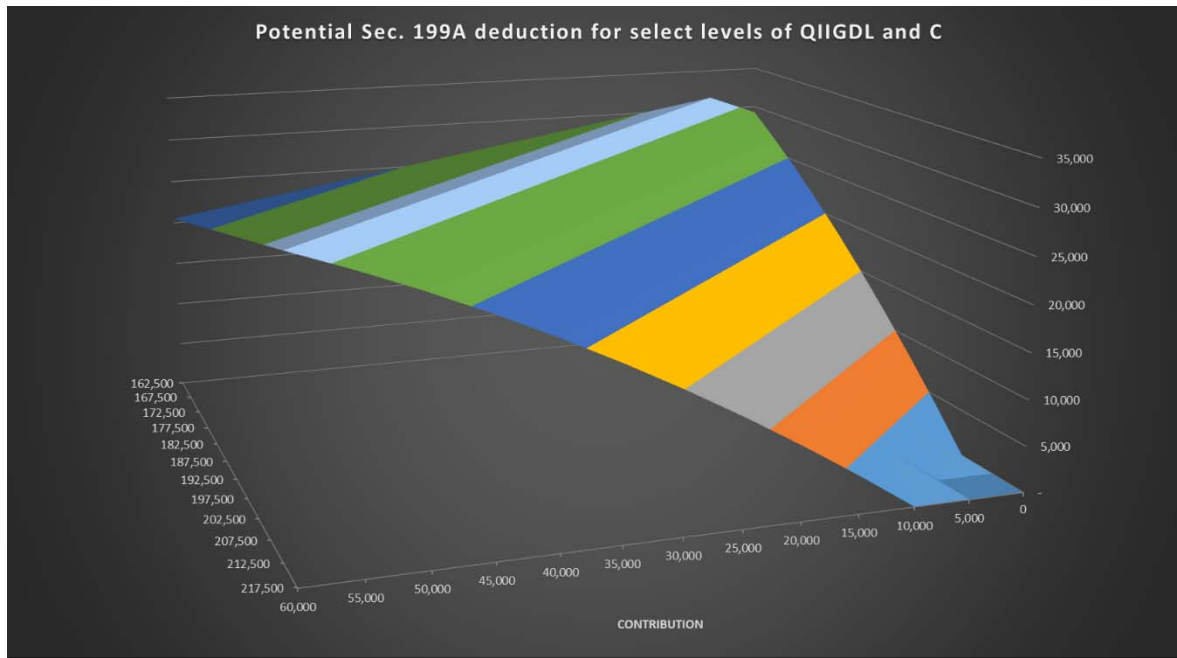
		Contribution												
AP		0.00	5,000.00	10,000.00	15,000.00	20,000.00	25,000.00	30,000.00	35,000.00	40,000.00	45,000.00	50,000.00	55,000.00	60,000.00
Q I I G D L	162,500	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	167,500	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	172,500	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%
	177,500	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%	100%
	182,500	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%	100%
	187,500	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%	100%
	192,500	30%	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%	100%
	197,500	20%	30%	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%	100%
	202,500	10%	20%	30%	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%	100%
	207,500	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	100%
212,500	0%	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	<b>100%</b>	100%	

The AP is maximized at 100% along the  $(QIIGDL - C) = TA$  (\$157,500 in this case) line.

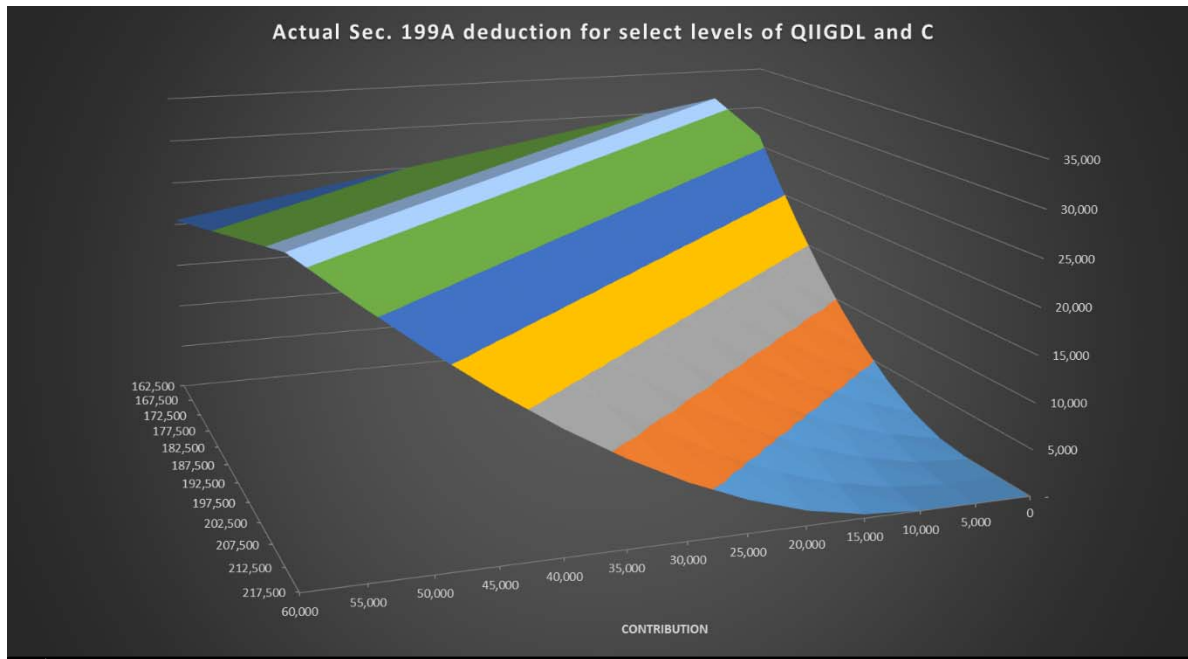


Limit	Contribution													
	0	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000	
162,500	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500	20,500	
167,500	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500	
172,500	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	
177,500	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	
182,500	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	24,500	
187,500	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	25,500	
192,500	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	26,500	
197,500	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	27,500	
202,500	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	28,500	
207,500	0	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	29,500	
212,500	0	0	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	30,500	
217,500	0	0	0	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	<b>31,500</b>	

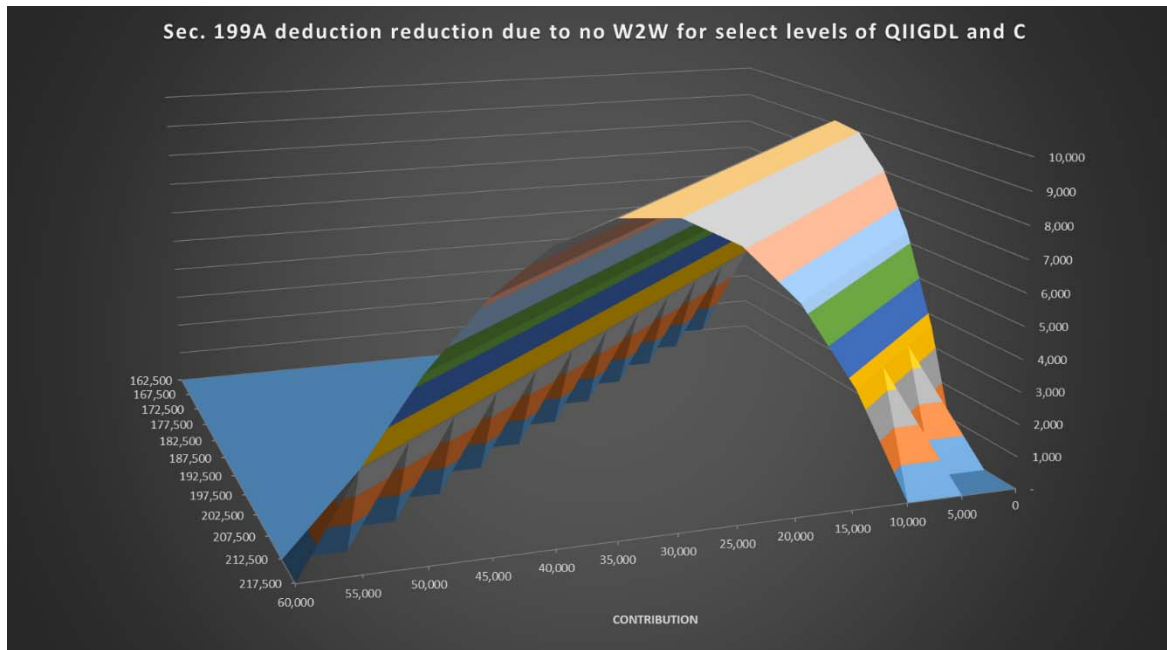
Sec. 199A deduction limit is maximized along the  $(QIIGDL - C) = TA$  line. If  $C$  reduces  $QIIGDL$  below the  $TA$  level the deduction limit starts to drop due to the reduction of  $TI$  below the minimum level required for the  $AP$  to be 100%.



Potential deduction	Contribution													
	0	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000	
162,500	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500	20,500	
167,500	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500	
172,500	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	
177,500	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	
182,500	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	
187,500	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	25,500	
192,500	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	26,500	
197,500	7,900	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	27,500	
202,500	4,050	7,900	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	28,500	
207,500	-	4,050	7,900	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	29,500	
212,500	-	-	4,050	7,900	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	30,500	
217,500	-	-	-	4,050	7,900	11,550	15,000	18,250	21,300	24,150	26,800	29,250	31,500	



	Actual deduction	Contribution												
		0	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000
Q I I G D L	162,500	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500	20,500
	167,500	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500	21,500
	172,500	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500	22,500
	177,500	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500	23,500
	182,500	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500	24,500
	187,500	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500	25,500
	192,500	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500	26,500
	197,500	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500	27,500
	202,500	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500	28,500
	207,500	-	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	29,500
212,500	-	-	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	30,500	
217,500	-	-	-	405	1,580	3,465	6,000	9,125	12,780	16,905	21,440	26,325	31,500	



	Loss of deduction	Contribution												
		0	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	60,000
Q I I G D L	162,500	2,925	-	-	-	-	-	-	-	-	-	-	-	-
	167,500	5,360	2,925	-	-	-	-	-	-	-	-	-	-	-
	172,500	7,245	5,360	2,925	-	-	-	-	-	-	-	-	-	-
	177,500	8,520	7,245	5,360	2,925	-	-	-	-	-	-	-	-	-
	182,500	9,125	8,520	7,245	5,360	2,925	-	-	-	-	-	-	-	-
	187,500	9,000	9,125	8,520	7,245	5,360	2,925	-	-	-	-	-	-	-
	192,500	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-	-	-	-	-	-
	197,500	6,320	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-	-	-	-	-
	202,500	3,645	6,320	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-	-	-	-
	207,500	-	3,645	6,320	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-	-	-
	212,500	-	-	3,645	6,320	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-	-
	217,500	-	-	-	3,645	6,320	8,085	9,000	9,125	8,520	7,245	5,360	2,925	-

The parabolic nature of the Sec. 199A deduction limit as a function of the **AP** reduces Sec. 199A deduction otherwise available to the taxpayer when **TI > TA**. The loss is the greatest in dollar terms at **AP = 50%**

If there is **W2W > 0** wrt the **QTB** then the Sec. 199A deduction limit will retain its parabolic character but the effect will be reduced.

Given a certain level of **W2W** and **QIGDL** (prior to reduction by **C**) a contribution **C ≥ (QIGDL - 250% x W2W)** will make **W2W** the controlling element of the Sec. 199A deduction limitation.

### Preliminary Conclusions

**SSTB** and non-**SSTB** taxpayers with taxable income prior to pension and Sec. 199A deductions at or below the threshold amount will have low incentives (if any) to make qualified retirement plan contributions. The incentives may be higher if the taxpayers reside in the high SALT states and itemize personal deductions.

Non-**SSTB** taxpayers with taxable income prior to pension and Sec. 199A deduction in the range between the threshold and the threshold + phase-in limit will have reduced incentives to make qualified retirement plan contributions. The incentives will be higher if the wages w.r.t. to the business are not very high relative to the business income level and/or if the taxpayers reside in the high SALT states and itemize personal deductions.

Non-**SSTB** taxpayers with taxable income prior to pension and Sec. 199A deduction in excess of the threshold + phase-in limit level will have reduced incentives to make qualified retirement plan contributions if the wages w.r.t. to the business are not very high. The incentives will be higher if the taxpayers reside in the high SALT states and itemize personal deductions.

**SSTB** taxpayers with taxable income prior to pension and Sec. 199A deductions in excess of the threshold amount will have very high incentives to make qualified retirement plan contributions as the pension contribution deduction could be used to make the Sec. 199A deduction available or maximized for a given level of wages w.r.t. to the business. The incentives will be even higher if the wages w.r.t. to the business are not very high and/or if the taxpayers reside in the high SALT states and itemize personal deductions.

Simple, right?

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