

## New Business Deduction for Staffing Firms (QBI)

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**Good news for partnerships and S corporations** (pass-throughs) which can deduct up to 20% of their Qualified Business Income (QBI) under new IRS Section 199(A).

**What is Qualified Business Income?** Qualified Business Income is net income that is received from a Qualified Trade or Business. Capital gains, and dividend and interest income are not considered business income. Guaranteed payments or wages paid to owners are excluded.

**What is a Qualified Trade or Business?** A Qualified Trade or Business is any business that is not a Specified Service Business which is defined as a business in the fields of health, law, accounting, financial services and other consulting services.

**Income Limitation for Specified Service Trade or Businesses** Owners of a Specified Service Trade or Business **may take the QBI Deduction** if their taxable income is below \$157,500 for single filers (\$315,000 for Married Filing Joint) to be eligible for the full deduction.

**How is the QBI Deduction Calculated?** The QBI Deduction usually is the smaller of 20% of Qualified Business Income or 20% of taxable income. For example, a staffing owner of an S-corporation has \$400,000 of QBI. His taxable income is \$300,000, (below the income limitation). Therefore, his QBI deduction is \$60,000, which is 20% of his taxable income.

**Good news for staffing firms and real estate investors!** The IRS clarified that staffing firms and the rental of property to a related business are Qualified Businesses for the QBI deduction with no income limitation. Other rental real estate properties may also qualify if the activity rises to the level of a business.

**Limitations for Qualified Businesses – Staffing firms and rental businesses** have no income limitations but may be limited based on the business's W-2 wages and unadjusted basis in qualified property. The amount of the tax deduction will vary depending on the specific taxpayer circumstances.

**Want to maximize your deduction?** Regardless of your income level, there are numerous tax moves staffing owners can do to maximize this new Sec 199(A) deduction- even for 2018!

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