

Decisions to embrace the corporate form of organization should be carefully considered, since a corporation, like a lobster pot, is easy to enter, difficult to live in, and painful to get out of.

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Note: For the §199A questions, use the thresholds in the statute, that is, unadjusted for inflation.

1. You are considering incorporating your business. What are two entities that you could use to ensure that the entity will be treated a C corporation for tax purposes.
2. Apple wants to get into the autonomous car business and wants to operate it through a separate legal entity for liability purposes, but it does not want the entity to be treated as a C corporation. What do you recommend?
3. Your corporate team comes to you with a new transaction, which involves a client's purchase of all of the interests in a Spanish limitada. What is the client purchasing? Reg. §301.7701-3(b)(2).
4. If your income (say \$100) is taxed at a rate of 37% and you can exclude 20% of your income (\$20), what is the effective tax rate on your income of \$100? Can you generalize this algebraically?
5. If you operate your business through a corporation, are you eligible for the 199A deduction? §199A(a).
6. *Qualified Business Income* (QBI). Read §§199A(c)(1), (c)(3)(A), (c)(3)(B) and (c)(4).
 - (a) Roughly what is QBI?
 - (b) Are capital gains/losses, interest income, dividends QBI?
 - (c) Does compensation paid to a taxpayer by his QTB count as QBI?
7. *Qualified Trade or Business* (QTB). Read §§199A(d)(1), (d)(2), and (d)(3).
 - (a) Is being an employee a QTB?
 - (b) Is being a lawyer, doctor, accountant a QTB? Policy Rationale?
 - (c) Is being a hedge fund or PE manager a QTB?
 - (d) Read §1202(e)(3)(A)—what does it mean?

- (e) A is a well-known chef who owns multiple restaurants. He earns \$\$\$ from his restaurants and endorsement fees from endorsing a line of cooking utensils. Is one or both of A's businesses a SSTB? *See* Reg. §1.199A-5(b)(3)(xv), Ex. 15.
8. *Specified Service Business Exception.* Read §§199A(d)(3) and (e)(2).
- (a) Once you start working, are you eligible for the §199A benefits? What additional facts would you need to know? If so, how much?
- (b) At what income amount does the §199A benefits end for you?
9. You are single, have a QTB, and have \$1,000,000 of QBIA but have no employees or qualified property. Read §§199A(b)(2) and (b)(3).
- (a) What is the amount of your §199A deduction?
- (b) Same as (a), but your W-2 wages for the QTB are \$500,000?
10. You are a real estate manager and own \$100mm of rental property. You have very few employees because you hire mostly independent contractors for repairs, etc. Read §§199A(b)(2) and (b)(6).
- (a) Assume your QBI is \$10mm and you have \$1mm in wages. What is the amount of your §199A deduction assuming that the unadjusted basis of the property is \$0?
- (b) Is real estate *qualified property*?
- (c) What does *unadjusted basis* mean?
- (d) Assume that the unadjusted basis of the rental property is \$100mm? What's the §199A deduction?
11. Very generally, how do these rules apply to pass-through entities, including S corps? Read lightly §199A(f)(1)(A).
12. Husband (H) and Wife (W) are both lawyers and practice law together. In 2022 they have net income from their practice of \$300,000. Their expenses for the year included \$40,000 of W-2 wages. They did not use any qualified property in their practice. If H&W had taxable income of \$381,400 for 2022, what is their QBD? Read §§199A(d)(3)(B), 199A(b)(2)(A), and 199A(b)(3)(B).