

*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 adjusted for inflation. See §199A(e)(2)(B). Where would you find the inflation-adjusted numbers for TY 2026?

1. You are considering incorporating your business. What are two entities that you could use to ensure that the entity will be treated as a C corporation for tax purposes.
2. Apple wants to get into the autonomous car business and 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 the interests of a Spanish limitada. What is the U.S. tax classification of the entity that your client is purchasing? Reg. §301.7701-3(b)(2). Why does it matter to your client?
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 or the corporation 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 self-employed 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 Trade/Business Exception.* Read §§199A(d)(3) and (e)(2).
  - (a) You are single and have opened up your own law firm, i.e., you are not an employee, and earn \$200,000 solely from your law practice. You have no employees. Are you eligible for §199A benefits? If so, how much?
  - (b) Assuming that you have a SSTB, at what income amount does the §199A benefit 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, such as partnerships and S corps? Read lightly §199A(f)(1)(A).
- 12. Husband (H) and Wife (W) are both lawyers and practice law together. In 2026 they have net income from their law practice of \$400,000. Their expenses for the year include \$40,000 of W-2 wages. They did not use any qualified property in their practice. If H&W have taxable income of \$453,500 for 2026 (they have other income than their law practice), what is their QBD? Read §§199A(d)(3)(B), 199A(b)(2)(A), and 199A(b)(3)(B).