Answer to Q#11

This is a challenging problem because you have to apply two phase in limitations. To make the calculations easier, let’s assume that their TI is 375K and *not* 381.4K

Since the practice of law is specified service T/B, the 199A deduction available only if the taxpayer’s income is less than the threshold amount of 315K plus 100k (married). (d)(3)(A)(i) and (e)(2)(A). The problem states that their income is 375K ~~381.4K~~, which falls under the 415K limit. Consequently, they fall w/in the exception of (d)(3)(A)(i), but since their TI exceeds 315K, they are permitted to take into account only the *applicable percentage* of income, deduction and W-2 wages in computing the 199A deduction. (d)(3)(A)(ii).

The applicable percentage is 100% minus the % equal to the ratio of the taxable income in excess of the threshold amount, 60K, (375K – 315K) bears to 100k: 100% - 60% = 40%. (Thus, as TI increases, the applicable percentage decreases to that at 415K the applicable percentage will be 0: 100% - (100k/100k) = 0%.)

Applying the 40% percentage to H&W’s income yields 120K (300K \* 40%) of QBI and W-2 wages of 16K (40% \* 16K).

But we’re not quite done yet.

Before applying the other phase-in rule, H&W’s deduction would be the lesser of (A) 20% of QBIA, 24K (20% \* 120K), or (B) 50% of the W-2 wages, 8K (50% \* 16K). The deduction would be 8K. But…

In determining the QBIA amount under 199A(b)(2)—the lesser of 20% or the greater of 50% of the W-2 wages—the second limitation (50% of W-2) doesn’t apply if the TP’s TI doesn’t exceed the sum of the threshold amount (315K) + 100K, which is the case here.

If the TP’s TI doesn’t exceed the sum of the threshold amount plus 100K **and** the second limitation (8K) is less than the first limitation (24K), then the second limitation won’t apply but the first limitation (24K) is reduced. 199A(b)(3)(B)(i)(I) and (II).

Hang on, almost there…

The reduction is the amount which bears the same ratio to the *excess amount* as the amount by which the TP’s TI exceeds the threshold amount, 60K, (375K-315K) amount bears to 100K, or 60%.

The excess amount is excess of the 20% amount (24K) over the 50% of W-2 amount (8K) or 16K.

The reduction is 60% of 16K or 9.6, which leaves 24K – 9.6K = 14.4K.