# Suggested Answers to the 199A Problems

Remember: for these problems, we’re using the statutory (not adjusted for inflation) thresholds. These problems are useful as an exercise in statutory reading and an aid to help you fall asleep.

1. **Problem III.1.f.**

Engineer (S) has net earnings of 182,500 and paid 50,000 in wages (w/ no qualified property).

Since being an engineer is not a SST/B ((d)(2)(A)), E is entitled to QBD. The deduction is the lesser (A) 20% of QBI [36,500], or (B) 50% of wages [25,000]. Since E doesn’t have any QP, (b)(2)(B)(ii) doesn’t apply. The deduction would therefore be 25,000.

But since E’s income is less than the threshold amount of 157,500 + 50,000 (207,500) **and** the amount in (B) [25,000] is less than the amount in (A) [36,500], the “B” limitation is **phased in** by reducing the (A) [36,500] amount. (b)(3)(B)(i).

The reduction is the amount which bears the same ratio to the **excess amount** as the amount by which the TI [182,500] exceeds the threshold amount [157,500] or 25,000, bears to 50,000. This is 25,000/50,000 or 50%.

Excess amount = difference between the (A) amount [36,500] and the (B) amount [25,000], both computed without regard to the reduction amount: 11,500.

The reduction amount is 50% \* 11,500, or 5,750. Thus, the QBD is 36,000 – 5,750 or 30,750.

Note, once E’s income is 207,500, the reduction amount is: [207,500 – 157,500] / 50,000 or 1, so the reduction amount would be 1 \* 11,500 and the QBD would be 25,000.

1. **Problem III.1.g.**

Real estate is a qualified T/B. Why?? REM is entitled to a QBD equal to the:

the lesser of:

(A) 20% of QBI [$1.00MM], or

the greater of

(B)(i) 50% of wages [250k] or

(B)(ii) 2.5% of the unadjusted basis of the property [$1.25MM].

The QBD would therefore be $1MM. Note, if you track the definition of unadjusted basis of qualified property [(b)(6)], it means depreciable property NOT adjusted for depreciation. Absurd!

1. **Problem III.2.c.**

In 2(a), the lawyerly couple have a SST/B but their TI doesn’t exceed the threshold amount. Bingo for the deduction: 240k \* 20% or 48K. In 2(b), their income is too high, so no QBD. Boo hoo.

(2)(c) is challenging problem because you must apply two phase-in limitations.

Since law is a SST/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 340,000, 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). Thus, you must apply this limitation before applying the limitation in (b)(3).

The *applicable percentage* is 100% minus the % equal to the ratio of the taxable income in excess of the threshold amount, 25K, (340K – 315K) bears to 100k: 100% - 25% = 75%. (Thus, as TI increases, the applicable percentage decreases so that at 415K the applicable percentage will be 0: 100% - (100k/100k) = 0%.)

Applying the 75% applicable percentage to H&W’s income yields 180K (240K \* 75%) of QBI and W-2 wages of 60K (75% \* 80K).

But we’re not quite done yet.

Before applying the other phase-in rule, H&W’s deduction would normally be the lesser of:

(A) 20% of QBIA, **36K** (20% \* 180K), or

(B) 50% of the W-2 wages, **30K** (50% \* 60K).

So, the deduction would be 30K. But wait a minute slim…

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 (30K) is less than the first limitation (36K), then the second limitation won’t apply but the first limitation (36K) 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, 25K, (340K-315K) amount bears to 100K, or 25%.

The excess amount is 6K, the excess of the 20% amount (36K) over the 50% of W-2 amount (30K).

The reduction is thus 25% of 6K or 1.5, which leaves 36K – 1.5K = 34.5K.

Obviously, these very, very tedious calculations are all done using software/Excel spreadsheet. But it really makes you question the policy goals and rationale for this provision.