Detailed Answer to 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 specified service trade of business ((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%.

The excess amount is the 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.