**Husband (H) and Wife (W) are both lawyers and practice law together. (a) In 2018 they have net income from their practice of $240,000 and their joint taxable income for the year is $340,000. The expenses they incurred in their practice include $80,000 of W-2 wages.**

Since law is a SSTB and their *taxable income* exceeds the threshold amount (315,000) by less than 100k, this problem requires working through two phaseouts/limitations: the SSTB limitation and the 199A(b)(3)(B) limitation (Limitation B).

Under 199A(d)(3)(A)(ii), only the *applicable percentage* of income, W-2 wages, etc, are taken into account in computing QBI and W-2.

The applicable percentage means 100% reduced by the ratio of *taxable income in excess of the threshold amount to 100k.* 199A(d)(3)(B). Using the above numbers:

100% - (340k-315k)/100K = 100% -25% = 75%

Thus, only 75% \* 240K or 180k is taken account as QBI and only 75% \* 80k or 60k of W-2 wages is taken into account.

The QBI deduction is generally the lesser of (A) of 20% of QBI or (B) the greater of (i) 50% of W-2 wages or (ii) 25% of W-2 wages + 2.5% of the basis of qualified property.

Limitation B does Not apply if the TI is less than the threshold, but if TI exceeds the same threshold amount by less than 100k, which is the case here, the QBI 20% deduction amount is reduced under 199A(b)(3)(B)(ii).

The reduction is the amount that bears the same ratio to the *excess amount* as the taxpayer’s income in excess of the threshold amount (340k - 315k =25k) bears to 100k, or 25%.

The excess amount is the excess of the 2(A) amount (20% of QBI) over the 2(B) amount (50% of W-2 wages).

To compute the QBI deduction, we have to use the reduced amounts from above. So, 20% of 180k, or 36K, and 50% of 60k (W-2), or 30k. The excess amount is therefore 36k minus 30K or 6K, and 25% of the excess is 1.5K. Consequently, the total QBI deduction is 36K minus 1.5K or 34.5K.

Not worth it.