

The 20% advantage:

Your guide to the Section 199A deduction

How to unlock up to 20% of your
business income as a tax deduction



A powerful tax break is here to stay

The **Section 199A deduction** (Qualified Business Income, or **QBI, deduction**) allows eligible businesses to deduct up to 20% of their business income.

With the signing of the One Big Beautiful Bill Act (OBBBA), this deduction is now **permanent**, making it a cornerstone of long-term tax planning.

What is the QBI deduction?

It's a significant tax break for owners of pass-through businesses:

- Sole proprietorships
- Partnerships
- S corporations
- Certain trusts and estates

Excluded: Owners of C corporations and those earning W-2 wages from the business are not eligible.

Key components & income rules

The income thresholds for 2025

Your income determines your deduction amount. These thresholds adjust annually for inflation.

Filing status	Full 20% deduction threshold	Partial deduction phase-out range
Married filing jointly	Below \$394,600	\$394,600 to \$494,600
All other filers	Below \$197,300	\$197,300 to \$247,300

Above the maximum threshold, the deduction is calculated using a **W-2 wage and property limitation**.

Special rules for SSTBs

A **Specified Service Trade or Business (SSTB)** uses the skill or reputation of its employees/owners (e.g., doctors, lawyers, accountants).

Critical rule – SSTBs have strict income limitations:

- **Full deduction:** Available below the standard income threshold.
- **Partial deduction:** Reduced deduction within the phase-out range.
- **No deduction:** SSTBs earning above the maximum threshold (\$494,600 for MFJ or \$247,300 for others) are not eligible.

Calculating your potential QBI deduction

The basic calculation provides your potential deduction, which is limited by your taxable income.

Basic QBI Calculation

Qualified Business Income (QBI)

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20%

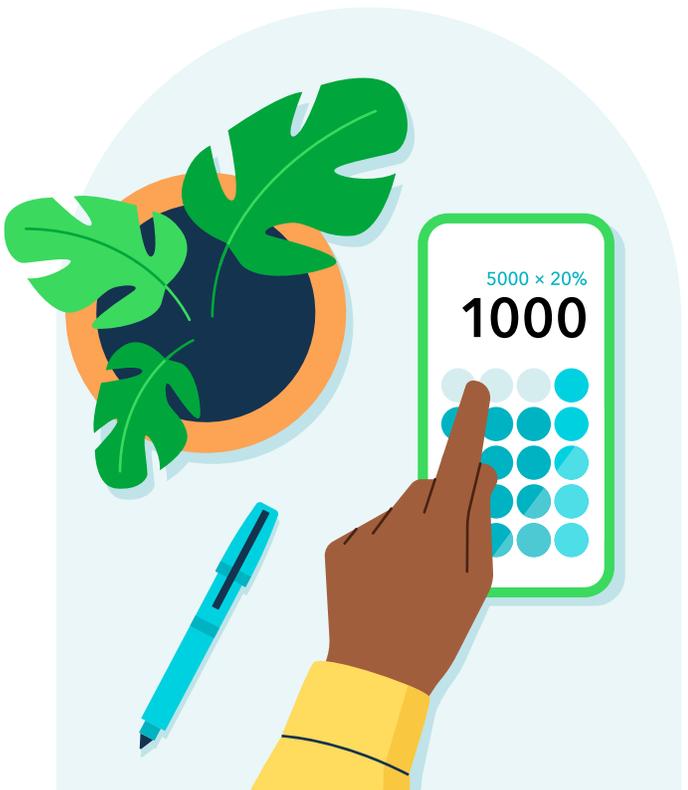
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Potential Deduction

The final limitation: Your deduction cannot exceed 20% of your total taxable income (minus net capital gains).

Example

If your potential QBI deduction is **\$20,000**, but 20% of your adjusted taxable income is **\$15,000**, your final deduction is limited to **\$15,000**.



QBI for specialized income

Rental property income

Rental real estate income can qualify as QBI if you treat the activity as a “trade or business” by demonstrating:

1. Regular and continuous activity (documented time logs)
2. Profit motive
3. Material participation

Investment income

You can claim a 20% QBI deduction on qualified dividends from **Real Estate Investment Trusts (REITs)** and **Publicly Traded Partnerships (PTPs)**. This deduction is **not subject to income limitations**.

Multiple businesses (aggregation rules)

If you have multiple businesses, you must:

- **Net QBI:** Positive QBI from one business offsets losses from another.
- **Carry forward losses:** A net negative QBI loss is carried forward to reduce QBI in the following year.
- **Aggregate:** You may combine multiple businesses to meet the W-2/property tests if they share ownership (50%+) and operational elements (similar services, shared facilities).



Avoid common QBI pitfalls

Errors are common and can result in significant accuracy-related penalties. Protect your business by focusing on compliance.

Documentation is everything

Keep meticulous records for at least seven years. Essential documentation includes:

- Profit and loss statements
- Sales receipts and invoices
- Bank statements
- 1099 forms
- Time logs for rental property activities

Self-employment tax

For sole proprietors and independent contractors, the QBI deduction will not reduce your self-employment tax.

Example: Self-employment tax is calculated on your full net profit (\$25,000). The QBI deduction (\$5,000) only reduces the income subject to your personal income tax.

Find peace of mind come tax time

The foundation of a successful QBI deduction is accurate, organized financial data. QuickBooks accounting software can help by:



Seamlessly tracking **W-2 wages** and **property basis**



Providing detailed **profit & loss reports** for QBI calculation



Integrating tools to prepare your tax data

Ready to maximize your 20% deduction?

Learn how the integrated tax tools in QuickBooks can simplify your QBI compliance.

[Explore QuickBooks tax tools](#)

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