If you own a business, you may wonder whether you're eligible to take the qualified business income (QBI) deduction. (It's sometimes referred to as the "pass-through" deduction or "Section 199A" deduction.)

The QBI deduction is available to owners of sole proprietorships, single-member limited liability companies (LLCs), partnerships, and S corporations, as well as trusts and estates. It's intended to reduce the tax rate on QBI to a rate that's closer to the corporate tax rate. The deduction is taken "below the line." In other words, it reduces your taxable income but not your adjusted gross income. It's available regardless of whether you itemize deductions or take the standard deduction.

For 2021, if taxable income exceeds $164,900 for single taxpayers or $329,800 for a married couple filing jointly, the QBI deduction may be limited based on different scenarios. These include whether the taxpayer is engaged in a service-type of trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business.

Some taxpayers may be able to achieve significant savings with respect to this deduction by deferring income or accelerating deductions at year-end so that they come under the dollar thresholds (or are subject to a smaller phaseout of the deduction) for 2021. Depending on your business model, you also may be able to increase the deduction by increasing W-2 wages before year-end.

The rules are quite complex, so contact us with questions and consult with us before taking steps.