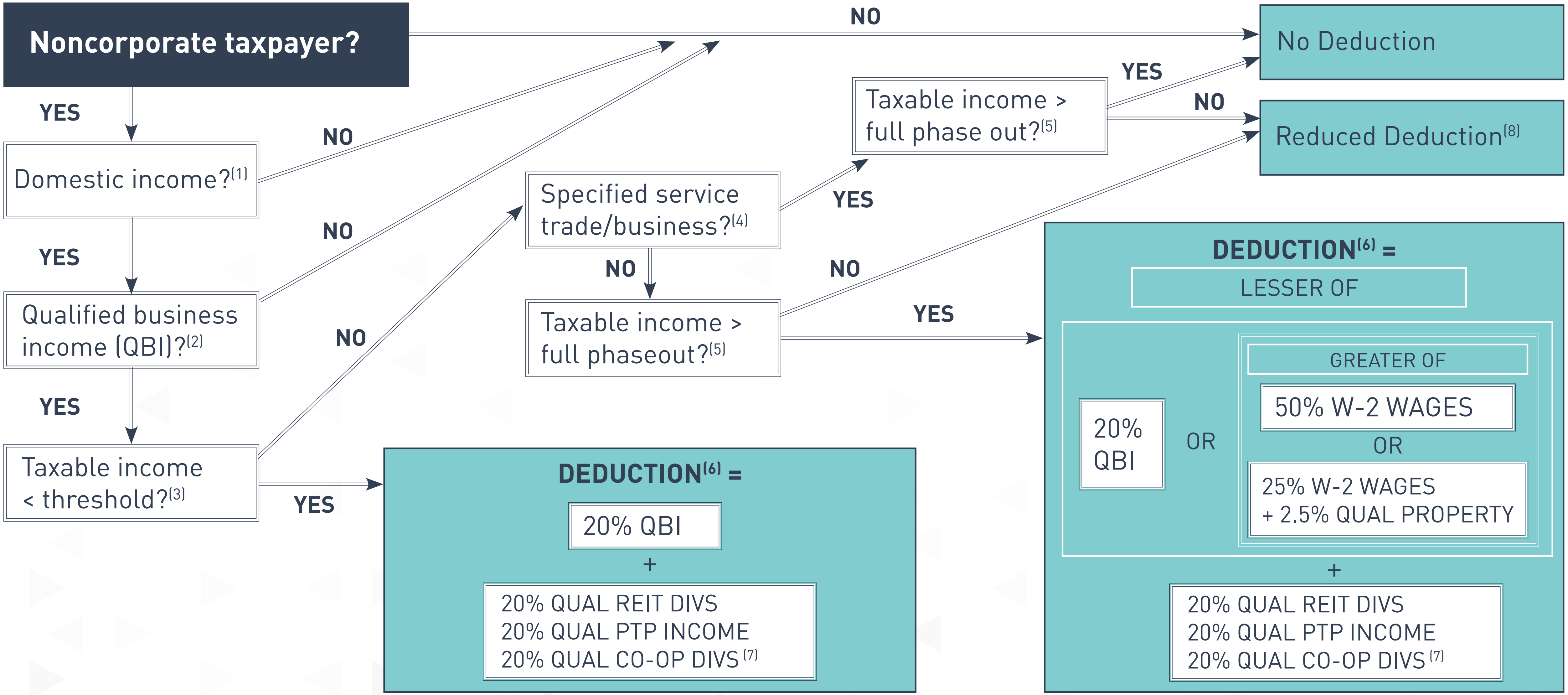
Pass-Through Business Deduction

Effective in 2018, new Internal Revenue Code Section 199A provides a deduction of 20 percent of domestic qualified business income (QBI) from a partnership, S corporation or sole proprietorship to noncorporate taxpayers, *i.e.*, individuals, trusts & estates. Provision sunsets December 31, 2025.



See next page for footnotes.

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Pass-Through Business Deduction

(1) Domestic: Effectively connected with conduct of trade/business within U.S. & Puerto Rico

(2) Qualified business income (QBI): Net amount of items of income, gain, deduction & loss with respect to any qualified trade or business, except:

- Reasonable compensation
- Guaranteed payments
- Investment income
- Short-term & long-term capital gain/loss
- Dividend income
- Interest income

(Note overall loss treated as loss for purposes of calculation in subsequent year)

(3) Threshold = $157,500 (single) | $315,000 (married filing jointly (MFJ)), indexed

(4) Specified service business: Any trade or business involving performance of services in fields of:

- Health
- Law
- Accounting
- Actuarial science
- Performance arts
- Investing & investment management, trading or dealing in securities, partnership interests or commodities
- Consulting
- Athletics
- Financial services
- Brokerage service
- Principal asset is reputation or skill of one or more of its employees or owners

(5) Full phaseout = $207,000 (single) | $415,000 (MFJ), indexed

(6) Deduction = Limited to 20 percent of excess of taxable income over the sum of any net capital gain

(7) Qual co-op divs = Limited to taxable income less net capital gain

(8) Reduced deduction: Wage limitation phases in & the deduction for specified service businesses phases out on a pro-rata basis between the threshold & full phase-out amounts

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