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**Abstract:** The Section 199A qualified business income (QBI) deduction was initially authorized by the Tax Cuts and Jobs Act (TCJA) to benefit certain business owners and self-employed individuals. Set to expire after 2025, it has been given new life. The One Big Beautiful Bill Act makes it permanent and adds improvements. Here's a basic description of the original QBI deduction and how it stands now.

## **The QBI deduction: Good news for eligible business owners**

If you're a small business owner or you're self-employed, there's good news on the tax front. The Section 199A qualified business income (QBI) deduction — a powerful tax-saving opportunity since 2018 — was initially set to expire in 2025. But thanks to the recent enactment of the One, Big, Beautiful Bill Act (OBBA), it's not only here to stay, it's also improved.

### **What exactly is the QBI deduction?**

This tax break allows eligible business owners to deduct up to 20% of their QBI from their taxable income. It applies to owners of *pass-through entities* — including S corporations, partnerships and LLCs — as well as sole proprietors.

QBI typically includes net business income but excludes investment capital gains and losses, dividends, interest income, owner wages, and guaranteed payments to partners or LLC members. Best of all, you don't need to itemize deductions to claim this one.

### **How income affects QBI eligibility**

While the full 20% deduction is available to many, it's subject to certain limits that phase in based on taxable income and other factors. Your tax advisor can help with this.

If your business is a specified service trade or business (SSTB), your deduction reduces gradually as your income increases beyond the threshold. If your income exceeds the top of the income range — \$247,300 (\$494,600 if you're filing jointly) for 2025 — you lose the deduction entirely.

SSTBs include professions like law, medicine, accounting, financial planning, and consulting — but not engineering or architecture.

Non-SSTBs face other limitations. If their income exceeds the top of the range, their deduction can't exceed the greater of their share of:

- 50% of the amount of W-2 wages paid to employees by the qualified business during the tax year, or
- The sum of 25% of W-2 wages plus 2.5% of the cost (not reduced by depreciation taken) of qualified property.

If their income falls within the range, these limits apply only partially.

### **Better news for 2026 and beyond**

Here's what business owners can look forward to:

- The top of the income range for the additional limits increases from \$50,000 above the threshold to \$75,000 above the threshold (from \$100,000 to \$150,000 for joint filers).
- A new minimum QBI deduction of \$400 is introduced for taxpayers earning at least \$1,000 in QBI, provided they materially participate in the business.

If the rules and thresholds seem daunting, lean on us.

### **Bottom line**

The QBI deduction can significantly reduce your tax bill. With the deduction now made permanent and set to improve in 2026, it's worth revisiting your tax strategy — and consulting with a qualified advisor — to ensure you're making the most of this valuable opportunity.