



THE QBI DEDUCTION I.R.C § 199(A)

IF YOU OWN A BUSINESS,
THIS DEDUCTION MAY LOWER YOUR TAX BILL

What Is the QBI Deduction?

It lets many business owners subtract up to **20%** of their business profit before that profit is taxed. It lives in Section 199A of the tax law. You can take it whether you claim the standard deduction or itemize, which is rare for a tax break this size.

Pass-through business: A business whose profit passes through to your personal tax return. The business itself pays no separate income tax.

Who Can Take It?

Owners of pass-through businesses qualify:

Sole Proprietorships

Partnerships

S Corporations

Some Trusts & Estates

Who Cannot Take It?

It does not apply to:

C Corporation Income

Wages You Earn as an Employee

What Counts as QBI?

QBI is your net profit, meaning what is left after business expenses. It is the number at the bottom of your Schedule C, not your total sales at the top.

Counts as QBI	Does Not Count
- Net profit from your trade or business - Rental income that rises to a real business (see note below)	- Capital gains and losses - Dividends - Interest not tied to your business - Reasonable pay from your own S corporation - Guaranteed payments to partners



Note—Landlords: Rental property can count when it is run like a genuine business. The IRS safe harbor generally treats a rental as a business if you log at least 250 hours of rental work in the year and keep separate books and records.

2026 Income Limits

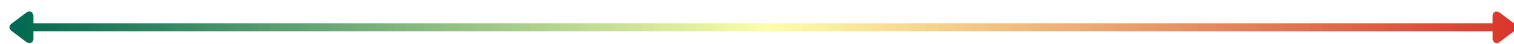
Your taxable income decides how much you keep. These are the 2026 figures from IRS Revenue Procedure 2025-32.

Your Taxable Income	Single / Head of Household	Married Filing Jointly
Full 20% deduction, up to	\$201,750	\$403,500
Phase-in range width	\$75,000	\$150,000
Deduction fully gone above (service business)	\$276,750	\$553,500

The Three Income Zones You Need to Understand

Where your taxable income lands sets how hard the deduction is to figure. Figures shown are for single filers. Double them for married filing jointly.

Green Zone	Yellow Zone	Red Zone
At or below the limit. Full 20%, simple.	Phase-in range. Limits apply in part.	Above the ceiling. Limits fully apply.
\$0	\$201,750	\$276,750
In the Green Zone	In the Yellow Zone	In the Red Zone
You generally take the full 20% with no extra tests. Keep clean records and report net profit accurately.	The wage, property, and service-business limits apply only in part. The 2026 window is wider, so more owners stay partly eligible.	Service businesses lose the deduction. Other businesses are capped by the wage and property formula below.



Does Your Type of Work Matter?

Only above the threshold. Then two questions decide your deduction.

1. Is It a Service Business (SSTB)?

These fields lose the deduction once income passes the red-zone ceiling:

- **Health, Law, Accounting, Consulting, Financial Services, Performing Arts & Athletics**

Kept off the list, so they keep the benefit:

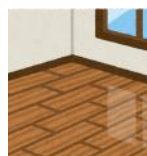
- **Engineering, Architecture**

2. If It Is Not a Service Business

Above the threshold, your deduction is capped by a formula tied to the wages your business pays and the property it owns. Your cap is the greater of:

- **(a) 50%** of W-2 wages paid, OR
- **(b) 25%** of W-2 wages plus **2.5%** of the cost of qualified business property.

This is why growing companies watch payroll closely.



New for 2026... a \$400 floor (conditional): If you have at least \$1,000 of qualified business income (QBI) from an active business in which you materially participate, you may be eligible for a minimum \$400 deduction for 2026.

This is subject to applicable law, IRS guidance, and any additional limitations or eligibility requirements; consult your tax advisor for advice specific to your situation.

Which Form Do I Use?

Form 8995: Simplified

Use it when your taxable income is at or below your threshold. One short calculation.

Form 8995-A: Full Computation

Use it when you are above the threshold, an SSTB inside the phase-in range, or a co-op patron. It walks through the wage and property limits.

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If you have any questions, schedule a 15-Minute Discovery Call!

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