

April 2019

Caution: 199A Calculator Is Business-by-Business without Aggregation

Your Section 199A deduction becomes more complicated when you have

- multiple in-favor trades or businesses,¹ and
- taxable income greater than \$415,000 married, filing jointly, or \$207,500, filing as single or head of household.

With multiple businesses and 1040 taxable income above the \$415,000/\$207,500 amounts, you likely need to consider aggregation, as we explain in [How to Find Your Section 199A Deduction with Multiple Businesses](#).

Why? The business-by-business result can be dramatically different from the aggregate result, as you will see in this article.

Let's examine an actual situation where the input of three businesses as one aggregated business produced a \$94,131 Section 199A tax deduction, but the input as three individual businesses produced a 199A tax deduction of only \$37,340.

Facts

Jake is married, with taxable income on his Form 1040 of \$691,657. He also operates the three businesses listed below, where we also list the qualified business income (QBI), W-2 wages, and unadjusted basis immediately after acquisition of qualified property:

Business	QBI	W-2 Wages	Property
1. Rental	\$70,844	\$6,000	\$435,069
2. S corp.	\$124,813	\$215,000	\$13,878
3. Sch. C	\$275,000	\$0	\$0
Totals	\$470,657	\$221,000	\$448,947

Aggregation

If Jake can properly elect to aggregate the three businesses as one for his Section 199A tax deduction, he enters the totals above in the Section 199A calculator and gets this result:²

Enter Information	
Single or Married	Married
Taxable Income	691,657
Net Capital Gains	0
Qualified Business Income (QBI)	470,657
Specified Service Business?	No
Wages Paid by Business	221,000
Qualified Property in Business	448,947

Results	
Your 199A Deduction:	\$94,131

No Aggregation

If Jake does not qualify for or desire aggregation, he treats each business separately, and that gives him a Section 199A tax deduction of only \$37,340. The deductions for each of the three businesses are:

- \$12,377 on business 1
- \$24,963 on business 2
- \$0 on business 3

To see why there's such a big difference, we will enter each business in the calculator and explain the results.

Business 1

Enter Information	
Single or Married	Married
Taxable Income	691,657
Net Capital Gains	0
Qualified Business Income (QBI)	70,844
Specified Service Business?	No
Wages Paid by Business	6,000
Qualified Property in Business	435,069

Results	
Your 199A Deduction:	\$12,377

Note first that Jake's taxable income remains at \$691,657 as it does in an aggregation. The high taxable income means Jake will get no Section 199A benefit from business 1 without wages or property.³

For this business, Jake gets a Section 199A deduction because of the wages and property combination (25 percent of \$6,000 plus 2.5 percent of \$435,069).

Business 2

Enter Information	
Single or Married	Married
Taxable Income	691,657
Net Capital Gains	0
Qualified Business Income (QBI)	124,813
Specified Service Business?	No
Wages Paid by Business	215,000
Qualified Property in Business	13,878

Results	
Your 199A Deduction:	\$24,963

Again, note the \$691,657 taxable income, which means Jake needs wages and/or qualified property to qualify for the Section 199A deduction.

Jake's \$24,963 deduction is 20 percent of the \$124,813 QBI, which is less than 50 percent of the wages. The wages are what allowed Jake to use the QBI calculation.⁴

Business 3

Enter Information	
Single or Married	Married
Taxable Income	691,657
Net Capital Gains	0
Qualified Business Income (QBI)	275,000
Specified Service Business?	No
Wages Paid by Business	0
Qualified Property in Business	0

Results	
Your 199A Deduction:	\$0

With taxable income greater than \$415,000 married, filing jointly, Jake needs wages and/or property to realize any Section 199A tax deduction. In business 3, he has neither W-2 wages nor qualified property; accordingly, he gets a \$0 deduction on business 3.

Takeaways

When using the Section 199A calculator, make sure to enter the amounts for each separate business if you are not aggregating under Section 199A or grouping under Notice 2019-7.⁵

And keep in mind that if your taxable income is \$315,000 or less, married, filing jointly, or \$157,500 or less, filing single or as head of household, you don't need to think about aggregation because you don't need wages or property to qualify for the Section 199A deduction.

Jake had taxable income of \$691,677. He needed wages and/or property. If aggregation was available, Jake's Section 199A deduction was \$94,131. Without aggregation, the three businesses produced a Section 199A deduction of only \$37,340.

[Client Letter on This Article for Use by Tax Pros. Click Here.](#)

- 1 The in-favor trade or business is not an out-of-favor specified service trade or business, as explained in [New IRS 199A Regulations Benefit Out-of-Favor Service Businesses](#).
 - 2 For more on aggregation, see [How to Find Your Section 199A Deduction with Multiple Businesses](#).
 - 3 For the wages and/or property limitations, see [Tax Reform: Will Section 199A Phase In or Phase Out Your 20 Percent Deduction?](#)
 - 4 *Ibid.*
 - 5 To learn about grouping, see [IRS Creates a New "Safe Harbor" for Section 199A Rental Properties](#).
-