



A TAX-SAVINGS GUIDE FOR BUSINESS OWNERS

# Maximizing the QBI Deduction

THE 20% PASS-THROUGH BREAK

One of the most valuable deductions available to business owners — now permanent. Here's who qualifies, how it's calculated, and the moves that protect it as your income grows.

**20%**

of qualified business  
income, deductible

**\$40K**

example deduction on  
\$200K of QBI

**Permanent**

made lasting by the  
2025 tax law

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FOR

Pass-through business owners

# 01 WHAT THE QBI DEDUCTION IS

The Qualified Business Income (QBI) deduction — sometimes called the Section 199A deduction — lets owners of **pass-through businesses** deduct up to **20% of their qualified business income** on their personal return. It's one of the largest deductions available to small-business owners, and the 2025 tax law made it permanent.

On \$200,000 of qualified income, a full 20% deduction is **\$40,000** off your taxable income — before you've done anything other than qualify for it. The catch is that the rules tighten as your income rises, which is where planning earns its keep.

## COUNTS AS QBI

- ✓ Sole proprietorship net profit (Schedule C)
- ✓ Partnership income (K-1)
- ✓ S-corp income (K-1, after your salary)
- ✓ Most rental real estate that rises to a trade or business
- ✓ Qualified REIT dividends (separate category)

## DOES NOT COUNT

- ✗ C-corporation income
- ✗ W-2 wages you earn as an employee
- ✗ Your own reasonable S-corp salary
- ✗ Capital gains and dividends (investment)
- ✗ Income earned outside the United States

## WHY MANY OWNERS LEAVE IT ON THE TABLE

The deduction is claimed on your personal return (Form 8995 or 8995-A), not the business return, so it's easy to miss or under-claim — especially when income approaches the limits. Getting the most from it is mostly about planning the year, not filling in a form.

## 02 THE INCOME THRESHOLDS

Everything about the QBI deduction hinges on your **taxable income**. There are three zones, and which one you land in changes the rules completely.

### BELOW THE THRESHOLD

*Simplest — full 20%*

If your taxable income is at or below the threshold, you generally get the full 20% deduction on your QBI — no wage tests, no service-business restrictions. Most owners live here.

**2025: up to \$197,300 single / \$394,600 married filing jointly**

### IN THE PHASE-OUT RANGE

*The tricky middle*

Within the phase-out band, the wage/property limitation and (for service businesses) the SSTB restriction phase in gradually. This is the zone where planning moves can recover real dollars.

**2025 range: \$197,300–\$247,300 single / \$394,600–\$494,600 MFJ**

### ABOVE THE THRESHOLD

*Limits apply in full*

Above the top of the range, the wage/property limitation applies fully, and service businesses (SSTBs) lose the deduction entirely. Non-service businesses can still qualify based on wages and property.

**Above \$247,300 single / \$494,600 MFJ (2025)**

### FIGURES UPDATE EACH YEAR

Thresholds adjust for inflation each year and the 2025 tax law widened the phase-out range starting in 2026, letting more owners keep the full benefit. We use the current-year figures for your filing status when we plan.

## 03 TWO RULES FOR HIGHER EARNERS

Once your income climbs past the threshold, two rules decide how much deduction survives. Below the threshold, neither applies — which is itself a planning clue.

### RULE 1 — THE SSTB RESTRICTION

A **Specified Service Trade or Business (SSTB)** is one whose main asset is the skill or reputation of its people. Above the threshold, SSTB owners lose the deduction entirely. Fields the IRS treats as SSTBs include:

Health

Law

Accounting

Consulting

Financial services

Performing arts

Athletics

Investing

Note: a non-service business (a manufacturer, retailer, contractor) is **not** an SSTB and can still qualify above the threshold under Rule 2.

### RULE 2 — THE WAGE & PROPERTY LIMIT

For non-service businesses above the threshold, the deduction can't exceed the **greater** of these two figures — which is why paying W-2 wages or owning business property protects the deduction:

**50%**

of W-2 wages the business pays

**25% + 2.5%**

of wages, plus 2.5% of property basis

## 04 MOVES THAT PROTECT IT

Because the deduction turns on taxable income and on wages and property, several planning moves can preserve or restore it. Which ones fit depends entirely on your numbers.

1

### Manage taxable income

Retirement contributions, HSA, and timing income/expenses can pull you under a threshold and restore the full deduction.

2

### Pay reasonable S-corp wages

Above the threshold, W-2 wages support the deduction under the wage test — there's a sweet spot between too little and too much salary.

3

### Time large purchases

Qualified property adds to the 2.5% property test; placing equipment in service strategically can help capital-intensive businesses.

4

### Mind the SSTB line

If you run mixed activities, separating a non-service business from a service one may preserve QBI on the non-service side.

5

### Coordinate retirement plans

Owner retirement contributions do double duty — they lower taxable income and can keep you in the favorable zone.

6

### Plan as a household

Spouse income, filing status, and other income all move your taxable income — the deduction is calculated on the whole picture.

## Are you claiming your full 20%?

We'll check your numbers, find the limit that applies, and plan the moves that protect it.

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This guide is general education, not tax or legal advice, and reflects Section 199A as of the 2025 tax year (returns filed in 2026), including the 20% deduction and the income thresholds of \$197,300 (single) and \$394,600 (married filing jointly), which adjust annually for inflation. The 2025 tax law made the deduction permanent and, starting in 2026, widened the phase-out range and added a \$400 minimum deduction for qualifying owners. Example figures are illustrative; your situation will differ. Please consult Milestone before acting.