

## Tax Reform: Planning for Your New 20 Percent Deduction

As you likely know by now, the Tax Cuts and Jobs Act created a 20 percent tax deduction under new tax code Section 199A.

The question for you: Will you reap any benefits from this new deduction? And the second question: If your chance of qualifying for the 20 percent tax deduction looks bleak, what can you do now to create some hope that you'll get the deduction?

If your defined taxable income is \$315,000 or less (joint return) or \$157,500 or less (single), you can relax. You don't need any strategies to realize your Section 199A deduction. It is simply the lesser of 20 percent of your taxable income (less net capital gains) or 20 percent of your qualified business income.

**Example.** John is single, a lawyer, with \$125,000 in qualified business income and \$150,000 in taxable income (excluding net capital gains). John's Section 199A tax deduction is \$25,000 (20 percent x \$125,000).

Once you exceed \$315,000 (married) or \$157,500 (single), we should spend at least a few minutes reviewing your deduction.

Here's an example of why this is important. We just reviewed a return that would have had \$315,001 in taxable income and \$350,000 in qualified business income. With that income, the 199A deduction was zero for this individual, but with \$1 less in taxable income, this individual's deduction is \$63,000. We are helping this individual avoid that highly troubling \$1 so he can realize his \$63,000 deduction.

If you expect to exceed the thresholds, we should talk, because some planning ideas require that you have time on your side. Also, once the year is over, you have very few, if any, Section 199A planning opportunities.