National Life Group®

199A: Turning Tax Losers into Tax Winners

WORKING WITH A QUALIFIED PLAN UNDER CODE § 199A

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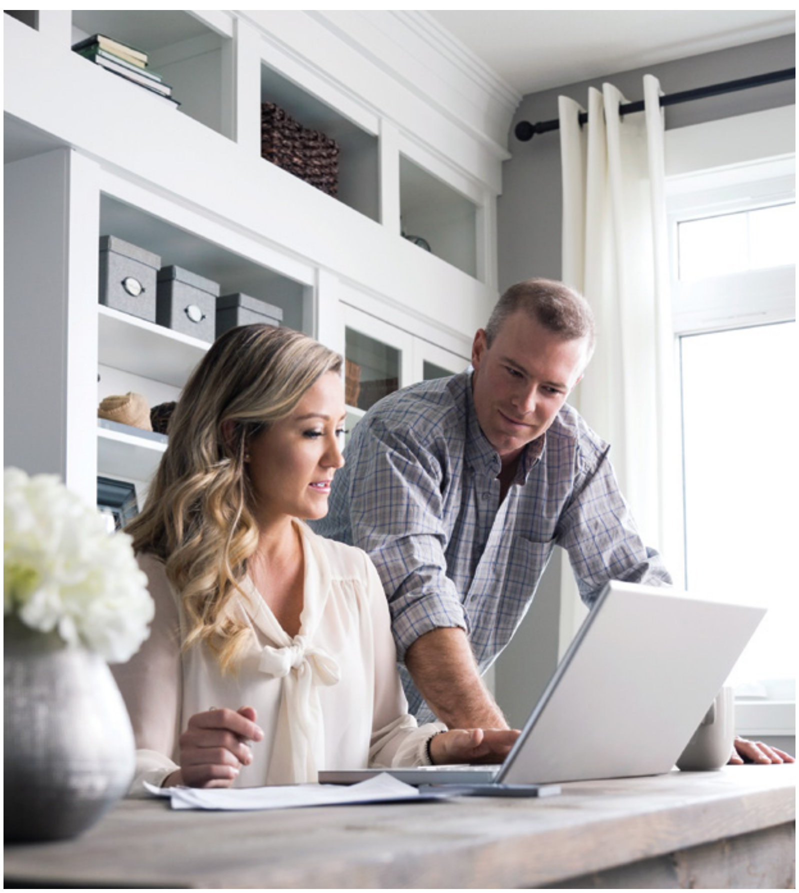
Tax Cuts and Jobs Act of 2017

If you are the owner of a pass-through business entity (Sole Proprietorships, Partnerships, S Corporations, and LLCs taxed as Partnerships or S Corporations) you may qualify for a tax deduction under Code Section 199A.

Section 199A may allow you to deduct as much as 20% of your qualified business income (QBI) from your personal income tax.

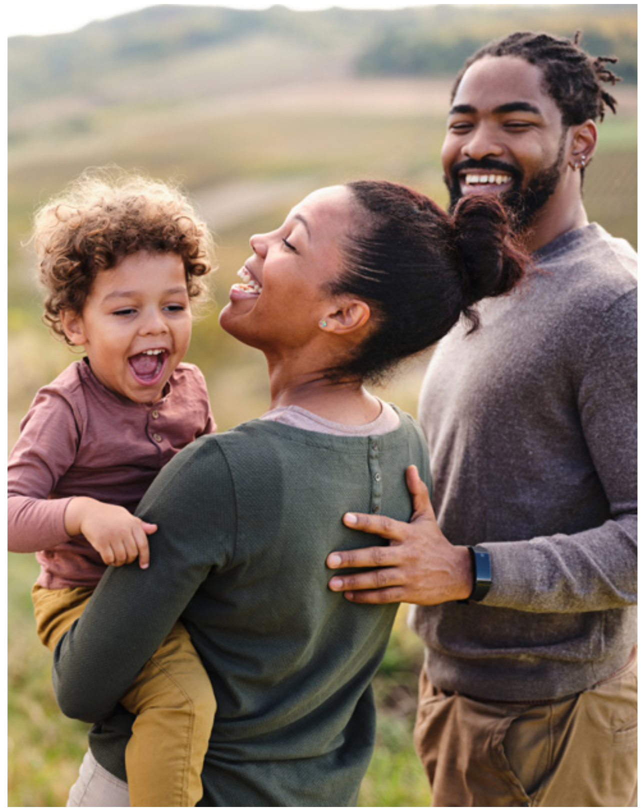
This chart lays out the basics of the Section 199A deduction.

2024 Thresholds	Non-Specified Service Business	Specified Service Business
Taxable Income less than $191,950 single or $383,900 married filing jointly	20% QBI Deduction	20% QBI Deduction
Taxable Income greater than $191,950/$383,900 but less than $241,950/$483,900	Limitation Phase-In	Deduction Phase-Out
Taxable Income over $241,950/$483,900	Lesser of 20% Deduction and W2/Property Limits	No Deduction



As you can see, there will be some winners and losers under Section 199A. If you own a specified service business (health, law, consulting, athletics, financial services or any business where the principal asset of the business is the reputation and skill of one or more of its employees) you will not be able to take the deduction if your taxable income is over the threshold limits. In a non-specified business you may lose the deduction if you haven't been taking (or paying) W2 income.

CASE STUDY



Roger is a consultant who conducts his business as an S Corporation. Last year he and his spouse had taxable income of $500,000 (you have to count your spouse's income when determining where you are in the threshold tests). Since Roger operates a service business, no Section 199A deduction will be available for the 2024 tax year if his family's taxable income remains at $500,000 as this is over the phase-out limits (see table on previous page).Therefore, no Section 199A deduction is available.

Luckily, there are strategies available to help Roger and any business owner who faces either a limitation, phase-out or complete loss of the deduction. The strategies can involve a careful reduction of family taxable income or an increase of W2 income from the pass-through entity.

Combine these strategies with a qualified plan and you may increase your current tax savings while you build a tax-efficient retirement account. If you have a need for life insurance , including it in your qualified plan will allow you to make the premium payments with tax-deductible contributions into the plan.

Let's look at Roger and his family and The Qualified Plan Solution[1]

Roger and his family have current taxable income of $500,000 with $200,000 of that as W2 from the business. Roger's family can take advantage of the 199A deduction by reducing the business' income, but they require a cash flow of $300,000.

Working with Roger's tax team, it was determined that he could choose to establish a defined benefit qualified plan. By doing so, he could contribute $200,000 on a tax-deductible basis.

By funding this qualified plan, Roger effectively lowers his family's taxable income, bringing it below the threshold required to qualify for the 199A deduction. This allows him to claim the deduction while maintaining the needed cash flow of $300,000. This is a win-win for Roger and his family by benefitting both from the tax savings while meeting their financial needs.

Want to take advantage of these tax savings opportunities? Speak with your financial professionals about the options that you have.

DO NOTHING		USING W2 WITH A QUALIFIED PLAN
$500,000	Taxable Income	$300,000
$200,000	W2 Wages	$200,000
$0	Qualified Plan Contribution	$200,000
$300,000	Qualified Business Income	$100,000
$0	199A Deduction	$20,000

Taxes Saved

$59,989

[1]This case example assumes Roger and his spouse's income tax filing status is married filing jointly and assumes no standard deduction.

Is a Qualified Plan Right for You?

The answer may be yes:

- If you need to save money for retirement
- If You are looking for deductions to help reduce your business' taxable income

  and/or
- If you want to lower your taxable income below the 199A thresholds, or leverage the wage and property limitations as a non-service business

Qualified plan contributions are made on a pre-tax basis, grow tax-deferred and may be creditor protected.