

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

True / False

1. Tomas owns a sole proprietorship, and Lucy is the sole shareholder of a C corporation. In the current year, both businesses make a net profit of \$60,000. Neither business distributes any funds to the owners in the year. For the current year, Tomas must report \$60,000 of income on his individual tax return, but Lucy is not required to report any income from the corporation on her individual tax return.
 - a. True
 - b. False

ANSWER: True

RATIONALE: Proprietorship profits flow through to the owner and are reported on the owner's individual income tax return. It does not matter how much of the profit is withdrawn from the proprietorship. Thus, Tomas must report the net profit of \$60,000 on his Form 1040 (Schedule C). Shareholders are required to report income from a C corporation only to the extent of dividends received. Consequently, Lucy has no income to report from the corporation for the current year. Tomas is likely eligible for a qualified business income deduction.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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2. Carol and Candace are equal partners in Peach Partnership. In the current year, Peach had a net profit of \$75,000 (\$250,000 gross income – \$175,000 operating expenses) and distributed \$25,000 to each partner. Peach must pay tax on \$75,000 of income.
- True
 - False

ANSWER: False

RATIONALE: A partnership is not a taxpaying entity. Its profit (loss) and separate items flow through to the partners. The partnership's Form 1065 reports net profit of \$75,000. Carol and Candace both receive a Schedule K-1 reporting net profit of \$37,500. Each partner reports net profit of \$37,500 on her own return (Form 1040). Each is likely eligible for a deduction for qualified business income on the income from the partnership.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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3. Rajib is the sole shareholder of Cardinal Corporation, a calendar year S corporation. In the current year, Cardinal generated a net profit of \$350,000 (\$520,000 gross income – \$170,000 operating expenses) and distributed \$80,000 to Rajib. Rajib must report the Cardinal Corporation profit of \$350,000 on his Federal income tax return.
- True
 - False

ANSWER: True

RATIONALE: Similar to partnerships, the net profit or loss of an S corporation flows through to the shareholders to be reported on their individual tax returns. Robin's net income of \$350,000 is allocated entirely to Rajib as the sole shareholder, and Rajib reports the \$350,000 of income on his Federal income tax return regardless of how much of the income was withdrawn from the S corporation.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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4. Donald owns a 45% interest in a partnership that earned \$130,000 in the current year. He also owns 45% of the stock in a C corporation that earned \$130,000 during the year. Donald received \$20,000 in distributions from each of the two entities during the year. With respect to this information, Donald must report \$78,500 of income on his individual income tax return for the year.
- True
 - False

ANSWER: True

RATIONALE: On his individual income tax return for the year, Donald must report his \$58,500 ($\$130,000 \times 45\%$) share of the partnership income plus the \$20,000 of dividends he received from the C corporation, or \$78,500 of total income. Partnership income is taxed to a partner in the year earned, and distributions do not affect a partner's share of income. A C corporation's income is taxed to a shareholder only when distributed as dividends and to the extent thereof. Donald should be eligible for a deduction for qualified business income on his partnership business income.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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5. Quail Corporation is a C corporation that generates net income of \$125,000 during the current year. If Quail paid dividends of \$25,000 to its shareholders, the corporation must pay tax on \$100,000 of net income. Shareholders must report the \$25,000 of dividends as income.
- True
 - False

ANSWER: False

RATIONALE: Quail Corporation must pay tax on the \$125,000 of corporate net income. Dividends paid are not deductible by the corporation. Shareholders must pay tax on the \$25,000 of dividends received from the corporation. This is commonly referred to as double taxation.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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6. Eagle Company, a partnership, had a short-term capital loss of \$10,000 during the current year. Aaron, who owns 25% of Eagle, will report \$2,500 of Eagle's short-term capital loss on his individual tax return.
- True
 - False

ANSWER: True

RATIONALE: Capital losses of a partnership pass through to the partners and are reported on such partners' tax returns.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

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7. Matt, the sole shareholder of Pastel Corporation (a C corporation), has the corporation pay him a salary of \$600,000 in the current year. The Tax Court has held that \$200,000 represents unreasonable compensation. Matt must report a salary of \$400,000 and a dividend of \$200,000 on his individual tax return.

- a. True
- b. False

ANSWER: True

RATIONALE: To the extent that a salary paid to a shareholder/employee is considered reasonable, the corporation is allowed a salary deduction, which reduces corporate taxable income. To the extent that a salary payment is not considered reasonable, the payment is treated as a dividend, which does not reduce corporate taxable income. The shareholder/employee is taxed on both salary (\$400,000) and dividends (\$200,000). (Pastel's taxable income increases by \$200,000, the amount of the unreasonable compensation paid to Matt.)

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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8. Double taxation of corporate income results because dividend distributions are included in a shareholder's gross income and are not deductible by the corporation.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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9. Jake, the sole shareholder of Peach Corporation (a C corporation) has the corporation pay him \$100,000. For income tax purposes, Jake would prefer to have the payment treated as a dividend instead of salary.
- True
 - False

ANSWER: True
RATIONALE: Jake must include in gross income both salary and dividends, but he would prefer dividend income due to the preferential tax rate accorded such income.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
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10. Thrush Corporation files its Form 1120, which reports taxable income of \$200,000 in the current year. The corporation's tax is \$42,000.
- True
 - False

ANSWER: True
RATIONALE: The tax is equal to \$42,000 ($\$200,000 \times 21\%$).
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
CPET.SWFT.2020.LO: 2-04 - LO: 2-04
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11. The corporate marginal income tax rate is lower than the top individual tax rate.
- True
 - False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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12. Employment taxes apply to all entity forms of operating a business. As a result, employment taxes are a neutral factor in selecting the most tax effective form of operating a business.
- True
 - False

ANSWER: False
RATIONALE: Employment taxes applicable to payments to owners of businesses are not neutral in the selection of a business form. The self-employment tax applies to the net earnings of a proprietorship and, often, to partnership allocations of income to a partner. Individuals can deduct one-half of the self-employment tax paid. Conversely, payroll taxes (employer and employee) apply to wages paid to a shareholder-employee of a corporation (regular or S), and the corporation can deduct the employer share of payroll taxes paid. Any analysis of the most tax effective form of operating a business must consider these differences in the treatment of employment taxes.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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13. Under the check-the-box Regulations, a two-owner LLC that fails to elect to be treated as a corporation will be taxed as a sole proprietorship.
- True
 - False

ANSWER: False
RATIONALE: Partnership is the default classification for a two-owner LLC that does not elect to be treated as a corporation under the check-the-box Regulations.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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14. A C corporation with taxable income of \$100,000 in the current year will have a tax liability of \$22,250.
- True
 - False

ANSWER: False
RATIONALE: Corporations are subject to a flat federal rate of 21%. Thus, with \$100,000 of taxable income, a corporation's federal income tax liability is \$21,000 ($\$100,000 \times 21\%$).
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
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15. Katherine, the sole shareholder of Penguin Corporation, has the corporation pay her a salary of \$300,000 in the current year. The Tax Court has held that \$90,000 represents unreasonable compensation. Katherine has avoided double taxation only to the extent of \$210,000 (the portion of the salary that is considered reasonable compensation).

- a. True
- b. False

ANSWER: True

RATIONALE: To the extent that a salary paid to a shareholder/employee is considered reasonable, the corporation is allowed a salary deduction, which reduces corporate taxable income. To the extent a salary payment is not considered reasonable, the payment is treated as a dividend, which does not reduce corporate taxable income. Katherine is taxed on both salary and dividends. Therefore, double taxation has occurred on \$90,000.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: - FN-Analytic
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KEYWORDS: Bloom's: Comprehension

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16. One of the purposes of the qualified business income deduction is to reduce the taxes on businesses that are operating in noncorporate business forms (e.g., sole proprietors, partnerships, and S corporations).

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-02 - LO: 2-02

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

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17. Instead of providing the qualified business income deduction to owners of noncorporate businesses, Congress could have applied a special tax rate to the business income to achieve a similar result.
- True
 - False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-02 - LO: 2-02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN- Measurement
KEYWORDS: Bloom's: Comprehension
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18. A *qualified trade or business* includes any trade or business including providing services as an employee.
- True
 - False

ANSWER: False
RATIONALE: A qualified trade or business includes any trade or business *other than* a trade or business of providing services as an employee.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-03 - LO: 2-03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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19. Unless Congress makes a change, the QBI deduction is set to expire after 2025.
- True
 - False

ANSWER: True
RATIONALE: The QBI deduction is in effect from 2018 through 2025.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-03 - LO: 2-03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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20. The QBI deduction percentage matches the 21% tax rate applicable to C corporations.
- True
 - False

ANSWER: False
RATIONALE: The QBI deduction is 20% of qualified business income.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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21. Code § 199A permits an individual to deduct 25% of the qualified business income generated through a sole proprietorship, a partnership, or an S corporation.
- True
 - False

ANSWER: False
RATIONALE: The deduction is 20% (not 25%).
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
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22. There are three limitations on the qualified business income deduction: an overall limitation (based on modified taxable income), another that applies to high income taxpayers, and a third that applies to certain types of service businesses.
- True
 - False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
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23. The QBI deduction will reduce both the income tax and self-employment taxes owed by a self-employed individual.
- True
 - False

ANSWER: False

RATIONALE: The QBI deduction is not allowed for self-employment tax purposes.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

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24. Qualified business income (QBI) is defined as the ordinary income less ordinary deductions that a taxpayer earns from a qualified trade or business (e.g., from a sole proprietorship, S corporation, or partnership) conducted in the United States by the taxpayer.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

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KEYWORDS: Bloom's: Knowledge

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25. Jane is a self-employed attorney and single. Her annual net earnings from her law practice always exceed \$220,000. Jane also has a business selling stained glass windows that she makes. Her earnings from this business are usually about \$35,000 per year. Jane claims the standard deduction. Because Jane's 2019 taxable income exceeds the \$210,700 threshold, she may not claim a QBI deduction for either business.
- True
 - False

ANSWER: False

RATIONALE: Jane's high taxable income level precludes her from claiming only a QBI deduction for the law firm (specified service business). She may claim a QBI deduction for her retail business.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

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KEYWORDS: Bloom's: Knowledge

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26. Qualified business income includes the reasonable compensation paid to the taxpayer by a qualified trade or business and guaranteed payments made to a partner for services rendered.
- True
 - False

ANSWER: False

RATIONALE: Compensation and guaranteed payments are excluded.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

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27. Ginger is a self-employed driver finding rides via a few different platform companies such as Lyft. She is single and claims the \$12,000 standard deduction. For 2019, her income from driving is \$67,000 and she has no other income. Ginger's QBI deduction for 2019 is \$13,400.
- True
 - False

ANSWER: False

RATIONALE: Ginger must apply the limitation based on taxable income without any net capital gain income. For her, this limit is \$10,960 [20% x (\$67,000 - \$12,200 single standard deduction)].

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Application

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28. A partnership will need to report wages paid to its employees as a separate line item on Schedule K-1 to help partners calculate their QBI deduction.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

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29. Qualified property is used to determine one of the limitations to the qualified business income (QBI) deduction. Specifically, 2.5% of the unadjusted basis (immediately after acquisition) of qualified property is added to 50% of W-2 wages to determine this limitation.

- a. True
- b. False

ANSWER: False
RATIONALE: Only 25% of W-2 wages are used for this limitation.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
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30. Once a taxpayer reaches certain taxable income thresholds, § 199A limits the qualified business income (QBI) deduction. These thresholds (\$321,400 for married taxpayers filing jointly and \$160,700 for all other taxpayers in 2019) are indexed for inflation every year.

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN- Measurement
KEYWORDS: Bloom's: Knowledge
OTHER: Time: 3 min.
DATE CREATED: 1/9/2019 1:37 PM
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

31. For purposes of the qualified business income (QBI) deduction, qualified business income does not include certain types of investment income [e.g., capital gains or capital losses, dividends, and interest income (unless properly allocable to a trade or business, such as lending)].

- a. True
- b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 3 min.
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32. Carla is a self-employed online retailer and single. She has no employees. Her annual taxable income is usually around \$200,000. Carla could increase her QBI deduction if she incorporated her business, made an S election, and paid herself wages.

- a. True
- b. False

ANSWER: True
RATIONALE: Carla will be subject to the 50% of wage limit and as a sole proprietor with no employees, this amount will be zero. Operating as an S corporation, she will have to pay herself reasonable wages.
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-05 - LO: 2-05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN- Measurement
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 3 min.
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

Multiple Choice

33. Luis is the sole shareholder of a regular C corporation, and Eduardo owns a proprietorship. In the current year, both businesses make a profit of \$80,000, and each owner withdraws \$50,000 from his business. With respect to this information, which of the following statements is incorrect?
- Eduardo must report \$80,000 of income on his return.
 - Luis must report \$80,000 of income on his return.
 - Eduardo's proprietorship is not required to pay income tax on \$80,000.
 - Luis's corporation must pay income tax on \$80,000.
 - None of these.

ANSWER: b

RATIONALE: For the current year, Luis must report dividend income of \$50,000, and Luis's corporation must pay income tax on the \$80,000 of profit (choice d.). Eduardo must report on his individual return the \$80,000 profit from his business (choice a.), but the proprietorship is not a taxable entity (choice c.). Luis is not required to report income from the corporation until he receives a dividend.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

34. Which of the following statements is *incorrect* about LLCs and the check-the-box Regulations?
- If an LLC with more than one owner does not make an election, the entity is taxed as a corporation.
 - All 50 states have passed laws that allow LLCs.
 - An entity with more than one owner and formed as a corporation cannot elect to be taxed as a partnership.
 - If an LLC with one owner does not make an election, the entity is taxed as a sole proprietorship.
 - An LLC with one owner can elect to be taxed as a corporation.

ANSWER: a

RATIONALE: If an LLC with more than one owner does not make an election, the entity is taxed as a partnership. The other statements are correct.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

35. An individual in a specified service business, such as accounting, with taxable income over the threshold amounts (\$210,700, or \$421,400 if married filing jointly in 2019), will not lose the QBI deduction on such income if:
- Taxable income exceeds the thresholds due to income of a spouse.
 - Taxable income did not exceed the thresholds in the prior three years.
 - Taxable income exceeds the thresholds because of net capital gain income.
 - None of these.

ANSWER: d

RATIONALE: It does not matter why the individual's taxable income exceeds the thresholds for qualifying for the QBI deduction for income from a specified service business.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

36. In 2019, Sam and Betty, each single, both generate sole proprietor income of \$240,000. Sam's income is generated from a wholesale business whereas Betty's is earned from her law practice. Neither has any employees or qualified assets. Both claim the standard deduction and have other income equal to the standard deduction amount.
- Both Sam and Betty will have a QBI deduction of \$48,000.
 - Sam can obtain a QBI deduction, but Betty cannot because of the taxable income level and law practice is a specified service business.
 - Neither Sam nor Betty will generate a QBI deduction due to their taxable income levels.
 - None of these.

ANSWER:

c

RATIONALE:

Sam will not generate a QBI deduction because application of the wage/capital investment limitations results in zero QBI. Betty does not generate a QBI deduction because her income exceeds \$160,700 and she also generates zero QBI deduction under the wage/capital investment limit. In addition, with taxable income above \$210,400, her "specified service" business generates no QBI deduction.

POINTS:

1

DIFFICULTY:

Moderate

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES:

CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS:

United States - BUSPROG: Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Comprehension

OTHER:

Time: 5 min.

DATE CREATED:

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2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

37. Tammy has \$200,000 of QBI from her neighborhood clothing store (a sole proprietorship). Her proprietorship paid \$30,000 in W-2 wages and has \$20,000 of qualified property. Tammy's spouse earned \$50,000 of wages as an employee, and the couple earned \$20,000 of interest income during the year and will be filing jointly. What is their QBI deduction for 2019?
- \$-0-
 - \$40,000.
 - \$50,000.
 - \$54,000.
 - None of these.

ANSWER:

b

RATIONALE:

Tammy and her spouse have taxable income before the QBI deduction of \$270,000 (this is also their modified taxable income). Because their taxable income before the QBI deduction is less than the threshold amount for married taxpayers filing a joint return (\$321,400 in 2019), the W-2 Wages/Capital Investment limit does not apply. Their QBI deduction is \$40,000, the lesser of:

- | | |
|---|-----------------|
| 1. 20% of QBI (\$200,000 x 20%) or | <u>\$40,000</u> |
| 2. 20% of modified taxable income (\$270,000 x 20%) | <u>\$54,000</u> |

POINTS:

1

DIFFICULTY:

Moderate

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 5 min.

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38. Jenna Parker owns and manages her single-member LLC, which provides a wide variety of financial services to her clients. She is married and will file a joint tax return with her spouse, Paul. Her LLC reports \$300,000 of net income, W-2 wages of \$120,000, and assets with an unadjusted basis of \$75,000. Their taxable income before the QBI deduction is \$285,000 (this is also their modified taxable income). What is their QBI deduction for 2019?
- \$-0-
 - \$57,000.
 - \$60,000.
 - \$70,000.
 - None of these.

ANSWER:

b

RATIONALE:

Even though this is a specified services business, Jenna and Paul's taxable income before the QBI deduction is below the \$321,400 threshold. As a result, their QBI deduction is \$57,000, computed as follows:

- 20% of QBI ($\$300,000 \times 20\%$) or \$60,000
- 20% of modified taxable income ($\$285,000 \times 20\%$) \$57,000

POINTS:

1

DIFFICULTY:

Moderate

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES:

CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS:

United States - BUSPROG: Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN- Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 5 min.

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39. Ellie (a single taxpayer) is the owner of ABC, LLC. The LLC (a sole proprietorship) reports QBI of \$900,000 and is a specified services business. ABC paid total W-2 wages of \$300,000, and the total unadjusted basis of property held by ABC is \$30,000. Ellie's taxable income before the QBI deduction is \$740,000 (this is also her modified taxable income). What is Ellie's QBI deduction for 2019?
- \$75,750.
 - \$148,000.
 - \$150,000.
 - \$180,000.
 - None of these.

ANSWER:

b

RATIONALE:

Because Ellie's taxable income before the QBI deduction exceeds the \$210,400 threshold, the W-2 Wages/Capital Investment Limit must be considered.

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

Ellie's QBI deduction is \$148,000, computed as follows:

1.	20% of QBI (\$900,000 x 20%)	\$180,0
2.	But no more than the <i>greater of</i> :	
	• 50% of W-2 wages (\$300,000 x 50%), or	\$150,0
	• 25% of W-2 wages (\$300,000 x 25%) plus	\$75,000
	• 2.5% of the unadjusted basis of qualified property (\$30,000 x 2.5%)	<u>750</u> \$ <u>75,7</u>
	And, no more than:	
3.	20% of modified taxable income (\$740,000 x 20%)	\$148,0

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN- Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 10 min.
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

40. Danielle is a partner in and sales manager for DG Partners, a domestic business that is *not* a specified service trade or business. During the tax year, she receives guaranteed payments of \$250,000 from DG Partners for her services to the partnership as its sales manager. In addition, her distributive share of DG Partners' ordinary income (its only item of income or loss) was \$175,000. What is Danielle's qualified business income?
- \$-0-
 - \$175,000.
 - \$250,000.
 - \$425,000.
 - None of these.

ANSWER:

b

RATIONALE:

Danielle's qualified business income from DG Partners is \$175,000. Her guaranteed payments do not qualify as QBI.

POINTS:

1

DIFFICULTY:

Moderate

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 5 min.

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

41. Aaron is the sole shareholder and CEO of ABC, Inc., an S corporation that is a qualified trade or business. During the current year, ABC has net income of \$325,000 after deducting Aaron's \$100,000 salary. In addition to his compensation, ABC pays Aaron dividends of \$250,000. What is Aaron's qualified business income?
- \$-0-
 - \$100,000.
 - \$250,000.
 - \$325,000.
 - None of these.

ANSWER: d

RATIONALE: Aaron's qualified business income from ABC, Inc. is \$325,000 (the net income reported to Aaron as ordinary income).

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

42. Alicia is the sole shareholder and CEO of ABC, Inc., an S corporation that is a qualified trade or business. During the current year, ABC has net income of \$325,000 after deducting Alicia's \$100,000 salary. In addition to her compensation, ABC pays Alicia dividends of \$250,000. After reviewing comparable companies, you determine that reasonable compensation for someone with her experience and responsibilities is \$200,000. What is Alicia's qualified business income?
- \$-0-
 - \$200,000.
 - \$225,000.
 - \$325,000.
 - None of these.

ANSWER: c

RATIONALE: Alicia's qualified business income from ABC, Inc. is \$225,000; \$325,000 net income reported to Alicia as ordinary income less \$100,000 of the dividends that would be reclassified as compensation under § 199A. Reasonable compensation is not QBI.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

43. Taylor, a single taxpayer, has taxable income before the QBI deduction of \$190,700. A CPA, he operates an accounting practice as a single-member LLC (which he reports as a sole proprietorship). During 2019, his proprietorship reports net income of \$150,000, W-2 wages of \$125,000, and \$10,000 of qualified property. What is Taylor's qualified business income deduction?
- a. \$-0-
 - b. \$12,000.
 - c. \$30,000.
 - d. \$31,500.
 - e. None of these.

ANSWER:

c

RATIONALE:

Taylor has a specified services business. Because his taxable income before the QBI deduction is more than \$160,700 (but less than \$210,700), he will receive a partial QBI deduction. Given the W-2 wages he reports, his QBI deduction will not be limited by the W-2 wages/capital investment limitation (50% of his W-2 wages is \$62,500; this amount will exceed the other QBI deduction computations). Taylor's QBI deduction is \$12,000, computed as follows:

- (1) Determine applicable percentage:

$$\begin{aligned} \text{Applicable percentage} &= 100\% - \frac{\$30,000 (\$190,700 - \$160,700)}{\$50,000} \\ &= 40\% \end{aligned}$$

- (2) Determine QBI deduction:

20% of QBI (\$150,000 x 20%)	\$30,000
x Applicable percentage	<u>x 40%</u>
	<u>\$12,000</u>

POINTS:

1

DIFFICULTY:

Moderate

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 10 min.

DATE CREATED:

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

44. Jason and Paula are married. They file a joint return for 2019 on which they report taxable income before the QBI deduction of \$200,000. Jason operates a sole proprietorship, and Paula is a partner in the PQRS Partnership. Both are a qualified trade or business and neither is a specified services business. Jason's sole proprietorship reports \$150,000 of net income, W-2 wages of \$45,000, and has qualified property of \$50,000. Paula's partnership reports a loss for the year, and her allocable share of the loss is \$40,000. The partnership reports no W-2 wages and Paula's share of the partnership's qualified property is \$20,000. What is their qualified business income deduction for the year?
- \$-0-
 - \$11,750.
 - \$22,000.
 - \$30,000.
 - None of these.

ANSWER: c

RATIONALE: Jason and Paula's taxable income before the QBI deduction is \$200,000. As a result, the W-2 wages/capital investment limitation does *not* apply to them. Jason's QBI amount is \$30,000 ($\$150,000 \times 20\%$). Paula's QBI amount is $\$(8,000)$ [$\$(40,000) \times 20\%$]. Their combined qualified business income amount is \$22,000 [$\$30,000 + \$(8,000)$]. Because this amount is less than the overall limitation based on modified taxable income ($\$200,000 \times 20\% = \$40,000$), their QBI deduction is \$22,000.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

45. Tanuja Singh is a CPA and operates her own accounting firm (Singh CPA, LLC). As a single-member LLC, she reports her accounting firm operations as a sole proprietor. Tanuja has QBI from her accounting firm of \$540,000, reports W-2 wages of \$156,000, and the unadjusted basis of property used in the LLC is \$425,000. Tanuja is married and will file a joint tax return with her spouse. Their taxable income before the QBI deduction is \$475,000, and their modified taxable income is \$448,000. What is Tanuja's QBI deduction for 2019.
- \$-0-
 - \$49,625.
 - \$78,000.
 - \$89,600.
 - None of these.

ANSWER: a

RATIONALE: Tanuja is not entitled to a QBI deduction in 2019. Her accounting firm is a specified services business and she and her spouse's taxable income before the QBI deduction (\$475,000) exceeds the \$421,400 threshold for 2019.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 10 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

46. Which of the following types of income are included in qualified business income (QBI)?
- Income generated from a qualified trade or business.
 - Guaranteed payments made in compensation for services performed by a partner to a partnership.
 - Wages paid to an employee.
 - Income earned from foreign business operations.
 - All of these.

ANSWER: a

RATIONALE: Only income from a qualified trade or business qualifies. Compensation-related payments and foreign earnings do not qualify.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-03 - LO: 2-03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

DATE CREATED: 2/4/2019 12:08 PM

DATE MODIFIED: 2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

47. What happens to the § 199A deduction if a qualified trade or business generates a loss?
- If the net amount of income, gain, deduction, and loss is less than zero, the net amount of the deduction can be carried back to a previous year or the taxpayer can elect to carry it forward.
 - If the net amount of income, gain, deduction, and loss is less than zero, the net amount of the deduction is lost and is not available to carryforward or carryback.
 - If the net amount of income, gain, deduction, and loss is less than zero, the net amount is treated as a loss in the succeeding year.
 - None of these.

ANSWER:

c

RATIONALE:

QBI losses do not vanish and do not carryback; a QBI loss is carried forward to the next tax year.

POINTS:

1

DIFFICULTY:

Easy

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Application

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

48. Where is the § 199A deduction taken on Form 1040?
- a. It is a deduction *from* AGI, much like the standard deduction or itemized deductions, and is the last deduction taken in determining taxable income.
 - b. It is a business deduction and is taken on Schedule C (Form 1040).
 - c. It is a deduction that reduces self-employment income and is taken on Schedule SE (Form 1040).
 - d. It is an itemized deduction taken on Schedule A (Form 1040).
 - e. None of these.

ANSWER:

a

RATIONALE:

The QBI deduction is a *from* AGI deduction and is the last deduction taken in determining taxable income. It is *not* a *for* AGI deduction (choice b.), does not reduce self-employment income (choice c.), and is not an itemized deduction (choice d.).

POINTS:

1

DIFFICULTY:

Easy

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES:

CPET.SWFT.2020.LO: 2-02 - LO: 2-02

NATIONAL STANDARDS:

United States - BUSPROG: Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

Bloom's: Application

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49. Which of the following is considered qualified property in the calculation of the deduction for qualified business income (§ 199A)?
- All business property (both tangible and intangible).
 - Tangible business property subject to depreciation.
 - Tangible property placed in service during the year, but not used in the production of qualified business income.
 - Fully depreciated tangible business property.

ANSWER: b

RATIONALE: Intangible property does not qualify (choice a.), the property must be used in the production of QBI (choice c.), and property whose “depreciable period” has ended is not “qualified property.”

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

50. In 2019, Kendra has taxable income before the QBI deduction of \$274,000. Kendra is single and has income from her law firm (a sole proprietorship operating as an LLC) of \$200,000. Her law firm paid wages of \$82,000 and has qualified property of \$20,000. What is Kendra's QBI deduction?
- a. \$0.
 - b. \$21,000.
 - c. \$40,000.
 - d. \$41,000.
 - e. \$54,800.

ANSWER:

a

RATIONALE:

Kendra operates a specified services business. Her taxable income before the QBI deduction exceeds the \$210,700 threshold for single taxpayers when the QBI deduction is no longer available. As a result, Kendra may not claim a QBI deduction.

POINTS:

1

DIFFICULTY:

Easy

QUESTION TYPE:

Multiple Choice

HAS VARIABLES:

False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS:

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

Multiple Response

51. Which of the following taxpayers is eligible for a qualified business income deduction regarding the activity noted? (circle all that apply)
- a. Tom's Burger Place, a sole proprietorship.
 - b. A driver for Uber or Lyft.
 - c. An employee working for Apple, Inc.
 - d. Apple, Inc.
 - e. A partner of a Big 4 firm.

ANSWER: a, b, e

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Response

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-03 - LO: 2-03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

DATE MODIFIED: 2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

52. Which of the following taxpayers is potentially eligible for a qualified business income deduction based on the noted activity? (circle all that apply)
- a. A shareholder of General Electric.
 - b. A sole proprietor operating a restaurant.
 - c. A self-employed doctor.
 - d. Jennifer, owner of a winery operated as an S corporation.
 - e. The Red Cross (a charitable organization).

ANSWER: b, c, d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Response

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-03 - LO: 2-03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

DATE MODIFIED: 2/23/2019 2:05 PM

53. Which of the following self-employed individuals are in a specified service trade or business? (circle all that apply)
- a. Dentist.
 - b. Consultant.
 - c. Architect.
 - d. CPA.
 - e. None of these.

ANSWER: a, b, d

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Multiple Response

HAS VARIABLES: False

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

DATE MODIFIED: 2/23/2019 2:05 PM

Subjective Short Answer

54. Rebecca and Brad are married and will file jointly. Rebecca earns \$300,000 from her single-member LLC (a law firm)

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

She reports her business as a sole proprietorship. Wages paid by the law firm amount to \$40,000; the law firm has no significant property. Brad is employed as a tax manager by a local CPA firm. Their modified taxable income is \$381,400 (this is also their taxable income before the deduction for qualified business income). Determine their QBI deduction for 2019.

ANSWER:

Normally, Rebecca and Brad would be entitled to a QBI deduction of \$60,000 (\$300,000 x 20%). But since their taxable income exceeds the threshold for married taxpayers (\$321,400), and Rebecca's QBI is from a specified services business (a law firm), their QBI deduction is limited to \$14,400, computed as follows:

(1) Determine applicable percentage:

$$\text{applicable percentage} = 100\% - \frac{\$60,000 (\$381,400 - \$321,400)}{\$100,000} = 40\%$$

(2) Determine QBI deduction:

1. 20% of QBI (\$300,000 x 20%)	\$60,000
x Applicable percentage	<u>x 40%</u>
	<u>\$24,000</u>

2. But no more than the *greater of*:

- 50% of W-2 wages (\$40,000 x 50% x 40%), or \$ 8,000
- 25% of W-2 wages (\$40,000 x 25% x 40%) plus \$4,000
- 2.5% of the unadjusted basis of qualified property — \$ 4,000
(\$-0- x 2.5% x 40%) -0-

Because Rebecca and Brad's modified taxable income exceeds \$321,400, but is less than \$421,400 and *the W-2 Wages/Capital portion of the computation is the limiting factor*, the general 20% QBI amount is used, but reduced as follows:

(1) Determine difference between the general 20% QBI deduction amount and the W-2 Wages/Capital amount.

General 20% QBI deduction amount	\$ 24,000
Less: The W-2 Wages/Capital Investment limit	<u>(8,000)</u>
Excess	<u>\$16,000</u>

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(2) Determine the reduction ratio:

$$\text{reduction ratio} = \frac{\$60,000 (\$381,400 - \$321,400)}{\$100,000} = 60\%$$

(3) Determine the reduction in the W-2 Wages/Capital Investment limit:

$$\text{Excess } (\$16,000) \times \text{reduction ratio } (60\%) = \$9,600$$

(4) Determine final QBI amount:

General 20% QBI deduction amount	\$24,000
Less: Reduction in the W-2 Wages/Capital limit	(9,600)
Final QBI amount	<u>\$14,400</u>

<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Moderate
<i>QUESTION TYPE:</i>	Subjective Short Answer
<i>HAS VARIABLES:</i>	False
<i>STUDENT ENTRY MODE:</i>	Basic
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.2020.LO: 2-04 - LO: 2-04
<i>NATIONAL STANDARDS:</i>	United States - BUSPROG: Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN- Measurement
<i>KEYWORDS:</i>	Bloom's: Application
<i>OTHER:</i>	Time: 15 min.
<i>DATE CREATED:</i>	1/9/2019 1:37 PM
<i>DATE MODIFIED:</i>	2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

55. Ashley (a single taxpayer) is the owner of ABC, LLC. The LLC (a sole proprietorship) reports QBI of \$900,000 and is *not* a specified services business. ABC paid total W-2 wages of \$300,000, and the total unadjusted basis of property held by ABC is \$30,000. Ashley's taxable income before the QBI deduction is \$740,000 (this is also her modified taxable income). What is Ashley's QBI deduction for 2019?

ANSWER:

As Ashley's taxable income before the QBI deduction exceeds the \$210,700 threshold, the W-2 Wages/Capital Investment Limit must be considered. Ashley's QBI deduction is \$148,000, computed as follows:

1.	20% of QBI (\$900,000 x 20%)	<u>\$180,000</u>
2.	But no more than the <i>greater of</i> :	
	• 50% of W-2 wages (\$300,000 x 50%), or	<u>\$150,000</u>
	• 25% of W-2 wages (\$300,000 x 25%) plus \$ 75,000	
	• 2.5% of the unadjusted basis of qualified property (\$30,000 x 2.5%)	<u>750</u> <u>\$ 75,750</u>
	And, no more than:	
3.	20% of modified taxable income (\$740,000 x 20%)	<u>\$148,000</u>

POINTS:

1

DIFFICULTY:

Challenging

QUESTION TYPE:

Subjective Short Answer

HAS VARIABLES:

False

STUDENT ENTRY MODE:

Basic

LEARNING OBJECTIVES:

CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS:

United States - BUSPROG: Comprehension

STATE STANDARDS:

United States - AK - AICPA: FN- Measurement

KEYWORDS:

Bloom's: Application

OTHER:

Time: 15 min.

DATE CREATED:

1/9/2019 1:37 PM

DATE MODIFIED:

2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

56. Susan, a single taxpayer, owns and operates a bakery (as a sole proprietorship). The business is *not* a specified services business. In 2019, the business pays \$60,000 in W-2 wages, has \$150,000 of qualified property, and \$200,000 in net income (all of which is qualified business income). Susan also has a part-time job earning wages of \$11,000, receives \$3,200 of interest income, and will take the standard deduction. What is Susan's qualified business income deduction?

ANSWER: Susan's taxable income before the QBI deduction is \$202,000 (her proprietorship net income of \$200,000 plus her wages of \$11,000 and her \$3,200 of interest income less her \$12,200 standard deduction).

Because Susan's taxable income before the QBI deduction exceeds \$160,700, the W-2 Wages/Capital Investment limit must be considered:

1. 20% of QBI (\$200,000 x 20%) \$ 40,000
2. But no more than the *greater of*:
 - 50% of W-2 wages (\$60,000 x 50%), or \$ 30,000
 - 25% of W-2 wages (\$60,000 x 25%) plus \$ 15,000
 - 2.5% of the unadjusted basis of qualified property 3,750 \$ 18,750
 - (\$150,000 x 2.5%)

And, no more than:

3. 20% of modified taxable income (\$202,000 x 20%) \$ 40,400

So, initially, Susan's QBI deduction is limited to \$30,000. However, as Susan's taxable income before the QBI deduction exceeds \$160,700, but is less than \$210,700 and *the W-2 Wages/Capital Investment portion of the computation is the limiting factor*, the general 20% QBI amount is used, but reduced as follows:

- (1) Determine difference between the general 20% QBI deduction amount and the W-2 Wages/Capital amount.

General 20% QBI deduction amount	\$40,000
Less: The W-2 Wages/Capital limit	<u>(30,000)</u>
Excess	<u>\$10,000</u>

(2) Determine the reduction ratio:

$$\text{reduction ratio} = \frac{41,300 (\$202,000 - \$160,700)}{\$50,000} = 82.6\%$$

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

(3) Determine the reduction in the W-2 Wages/Capital Limit:
excess (\$10,000) x reduction ratio (82.6%) = \$ 8,260

(4) Determine Final QBI Amount:

General 20% QBI deduction amount	\$40,000
Less: Reduction in the W-2 Wages/Capital limit	<u>(8,260)</u>
Final QBI Amount	<u>\$31,740</u>

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN- Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 15 min.
DATE CREATED: 1/9/2019 1:37 PM
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

57. Ben owns and operates a machine repair shop as a sole proprietorship. It generates a profit of about \$150,000 annually. The business pays wages of about \$50,000 annually. The building and most of the equipment are leased so there is no qualified property. Ben files as single and claims the standard deduction. He has a large unrealized gain in bitcoin that he acquired in 2014 and is wondering when he should sell it and whether he should sell it all in one year or over a few years. Advise Ben as to how the sale of the bitcoin and its resulting capital gain can affect his QBI deduction in 2019.

ANSWER: The capital gain will increase Ben's taxable income to the point that it could exceed \$160,700. At that point, his QBI deduction will be limited to 50% of the W-2 wages paid (\$25,000). If taxable income remains at \$160,700 or less, his QBI deduction will be 20% of his income from the repair business (\$30,000). Ben might want to sell all of the bitcoin in one year rather than over several years if doing so prevents his taxable income from exceeding \$160,700 and thereby imposing a limit on his QBI deduction.

POINTS: 1

DIFFICULTY: Moderate

QUESTION TYPE: Subjective Short Answer

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-05 - LO: 2-05

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 10 min.

DATE CREATED: 1/9/2019 1:37 PM

DATE MODIFIED: 2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

58. Sergio Fernandez owns and manages his single-member LLC which provides a wide variety of accounting services to his clients. He is married and will file a joint tax return with his spouse, Goretty. His LLC reports \$250,000 of net income, W-2 wages of \$120,000, and assets with an unadjusted basis of \$75,000. Their taxable income before the QBI deduction is \$215,000 (this is also their modified taxable income). Determine their QBI deduction for 2019.

ANSWER: Even though this is a “specified services” business, Sergio and Goretty’s taxable income before the QBI deduction is below the \$321,400 threshold in 2019. As a result, their QBI deduction is \$43,000, computed as follows:

1. 20% of qualified business income ($\$250,000 \times 20\%$), or \$50,000
2. 20% of modified taxable income ($\$215,000 \times 20\%$) \$43,000

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Subjective Short Answer

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Measurement -
AICPA: FN-Measurement

KEYWORDS: Bloom's: Application

OTHER: Time: 5 min.

DATE CREATED: 2/4/2019 4:06 PM

DATE MODIFIED: 2/23/2019 2:05 PM

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

59. Taylor owns a wide variety of commercial rental properties held in a single-member LLC. Her LLC reports rental income of \$750,000. The LLC pays no W-2 wages; rather, it pays a management fee to an S corporation that Taylor controls. The management company pays W-2 wages, but reports no income (or loss). Taylor's total unadjusted basis of the commercial rental property is \$5,000,000 and her taxable income before the QBI deduction (and his modified taxable income) is \$1,000,000. What is Taylor's QBI deduction for 2019?

ANSWER: Because Taylor's modified taxable income exceeds the \$421,400 threshold in 2019, the W-2 Wages/Capital Investment Limit comes into play. Taylor's QBI deduction is \$125,000, computed as follows:

1.	20% of qualified business income ($\$750,000 \times 20\%$)	<u>\$150,000</u>
2. But no more than the <i>greater of</i> :		
	-0% of W-2 wages ($\$0- \times 50\%$), or	<u>\$ -0-</u>
	-25% of W-2 wages ($\$0- \times 25\%$) plus	\$
	-0-	
	-2.5% of the unadjusted basis of qualified property ($\$5,000,000 \times 2.5\%$)	<u>\$ 125,000</u>
	<u>125,000</u>	
And, <i>no more than</i> :		
3.	20% of modified taxable income ($\$1,000,000 \times 20\%$)	<u>\$ 200,000</u>

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.
DATE CREATED: 2/4/2019 4:09 PM
DATE MODIFIED: 2/23/2019 2:05 PM

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60. Jansen, a single taxpayer, owns and operates a restaurant (as a sole proprietorship). The business is *not* a specified services business. In 2019, the business pays \$125,000 in W-2 wages, has \$187,500 of qualified property, and \$437,500 in net income (all of which is qualified business income). Jansen has no other items of income or loss and will take the standard deduction. What is Jansen’s qualified business income deduction?

ANSWER: Jansen’s taxable income before the QBI deduction is \$425,300 (his proprietorship net income less the \$12,200 single standard deduction); this is also his modified taxable income. Because Jansen’s taxable income before the QBI deduction exceeds the \$210,700 threshold, the W-2 Wages/Capital Investment limit must be considered. Jansen’s QBI deduction is \$62,500, computed as follows:

- | | | | |
|---|---|-------|------------------|
| 1. 20% of qualified business income (\$437,500 x 20%) | \$ <u>87,500</u> | | |
| 2. But no more than the <i>greater of</i> : | | | |
| 50% of W-2 wages (\$125,000 x 50%), or | \$ <u>62,500</u> | | |
| 25% of W-2 wages (\$125,000 x 25%) plus | \$31,250 | | |
| 2.5% of the unadjusted basis of qualified property (\$187,500 x 2.5%) | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-bottom: 1px solid black; width: 50px; text-align: right;">4,688</td> <td style="text-align: right;">\$ <u>35,938</u></td> </tr> </table> | 4,688 | \$ <u>35,938</u> |
| 4,688 | \$ <u>35,938</u> | | |
| And, <i>no more than</i> : | | | |
| 3. 20% of modified taxable income (\$425,300 x 20%) | \$ <u>85,060</u> | | |

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
KEYWORDS: Bloom's: Application
OTHER: Time: 5 min.
DATE CREATED: 2/8/2019 9:15 AM
DATE MODIFIED: 2/23/2019 2:05 PM

61. Felicia, who is single, operates three sole proprietorships that generate the following information in 2019 (none is a “specified services” businesses):

Business	QBI	W-2 Wages	Capital Investment
A	\$240,000	\$72,000	\$ -0-
B	\$(108,000)	\$48,000	\$ -0-
C	\$120,000	\$-0-	\$ -0-

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

Felcia chooses not to aggregate the businesses. She also earns \$150,000 of wages from an unrelated business and modified taxable income (before any QBI deduction) is \$304,000.

- What is Felicia's QBI deduction?
- Assume that Felicia can aggregate these businesses. Determine her QBI deduction if she decides to aggregate the businesses.

ANSWER:

- Under Prop. Reg. § 1.199A-1(d), Felicia must allocate Business B's negative QBI to Business A and Business C in proportion to their positive QBI amounts (\$240,000 for Business A; \$120,000 for Business C). As a result, the negative QBI from Business C is apportioned 66.66% to Business A and 33.33% to Business C. So \$(72,000) is apportioned to Business A and \$(36,000) to Business C.

Business	Adjusted QBI	W-2 Wages	Capital Investment
A	\$168,000 (\$240,000 – \$72,000)	\$72,000	\$ -0-
B	\$-0- [\$(108,000) + \$108,000]	\$48,000	\$ -0-
C	\$84,000 (\$120,000 - \$36,000)	\$-0-	\$ -0-

Felicia now applies the "W-2 Wages" limitation by determining the lesser of 20% of QBI or 50% of W-2 wages for each business.

Business	QBI x 20%	W-2 Wages x 50%	Lesser
A	\$33,600 (\$168,000 x 20%)	\$36,000	\$33,600
B	\$ -0-	\$24,000	\$ -0-
C	\$16,800 (\$84,000 x 20%)	\$ -0-	\$ -0-

Felicia's "combined qualified business income amount" is \$33,600 (\$33,600 + \$-0- + \$-0-). Because this amount is less than 20% of Felicia's modified taxable income (\$60,800; \$304,000 x 20%), Felicia's QBI deduction is \$33,600 and her taxable income is \$270,400. There is no carryover of any loss into the following taxable year for purposes of § 199A (Business B negative QBI was completely used).

- Because Felicia's taxable income is above the threshold amount, her QBI deduction is subject to the W-2 wages and capital investment limitations. Because the businesses are aggregated, these limitations are applied on an aggregated basis.

Business	QBI	W-2 Wages	Capital Investment
A	\$240,000	\$72,000	\$ -0-
B	\$(108,000)	\$48,000	\$ -0-
C	\$120,000	\$-0-	\$ -0-
Total	\$252,000	\$120,000	\$ -0-

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

None of the businesses own “qualified property.” As a result, only the “W-2 Wages” limitation applies. Felicia’s “combined qualified income amount” is \$50,400, the lesser 20% of the QBI from the aggregated businesses (\$50,400; \$252,000 x 20%), or 50% W-2 wages from the aggregated businesses (\$60,000; \$120,000 x 50%).

Felicia’s QBI deduction is equal to the lesser of \$50,400 or 20% of her modified taxal income (\$60,800; \$304,000 x 20%). As a result, Felicia’s QBI deduction is \$50,400, her taxable income is \$253,600. By aggregating her businesses, Felicia has increased size of her QBI deduction.

<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Moderate
<i>QUESTION TYPE:</i>	Subjective Short Answer
<i>HAS VARIABLES:</i>	False
<i>STUDENT ENTRY MODE:</i>	Basic
<i>LEARNING OBJECTIVES:</i>	CPET.SWFT.2020.LO: 2-04 - LO: 2-04
<i>NATIONAL STANDARDS:</i>	United States - BUSPROG: Comprehension
<i>STATE STANDARDS:</i>	United States - AK - AICPA: FN-Measurement - AICPA: FN-Measurement
<i>KEYWORDS:</i>	Bloom's: Application
<i>OTHER:</i>	Time: 5 min.
<i>DATE CREATED:</i>	2/8/2019 9:39 AM
<i>DATE MODIFIED:</i>	2/23/2019 2:05 PM

Essay

62. Compare the basic tax and nontax factors of doing business as a partnership, an S corporation, and a C corporation. Circle the correct answers.

Tax Questions	Column A Partnership	Column B S Corporation	Column C C Corporation
Who pays tax on the entity's income?	Partners Partnership	Shareholders S corporation	Shareholders C Corporation
Are operating losses passed through to owners?	Yes No	Yes No	Yes No
Are capital gains (losses) reported on owners' tax returns as such?	Yes No	Yes No	Yes No
Are distributions of profits taxable to	Yes No	Yes No	Yes No

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owners?

Nontax Factors	Partnership	S Corporation	C Corporation
Is the liability of owners limited?	Yes No	Yes No	Yes No
Is there free transferability of ownership interests?	Yes No	Yes No	Yes No

ANSWER:

The correct answers are shaded.

Tax Questions	Column A Partnership	Column B S Corporation	Column C C Corporation
Who pays tax on the entity's income?	Partners Partnership	Shareholders S corporation	Shareholders C Corporation
Are operating losses passed through to owners?	Yes No	Yes No	Yes No
Are capital gains (losses) reported on owners' tax returns as such?	Yes No	Yes No	Yes No
Are distributions of profits taxable to owners?	Yes No	Yes No	Yes No
Nontax Factors	Partnership	S Corporation	C Corporation
Is the liability of owners limited?	Yes No	Yes No	Yes No
Is there free transferability of ownership interests?	Yes No	Yes No	Yes No

POINTS:

1

DIFFICULTY:

Moderate

Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Comprehension
OTHER: Time: 10 min.
DATE CREATED: 1/9/2019 1:37 PM
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63. Dawn is the sole shareholder of Thrush Corporation, a C corporation. In the current year, Thrush earned \$350,000 and distributed \$75,000 to Dawn. Kirk is the sole shareholder of Swallow Corporation, an S corporation. In the current year, Swallow earned \$350,000 and distributed \$75,000 to Kirk. Contrast the tax treatment of Thrush Corporation and Dawn with the tax treatment of Swallow Corporation and Kirk.

ANSWER: A C corporation is a separate taxable entity; thus, Thrush Corporation is taxed on the \$350,000 of earnings. Income of a C corporation has no effect on the shareholders until such time a dividend is paid. When dividends are paid, shareholders must report dividend income on their tax returns. Thus, Dawn is taxed on \$75,000 of dividends, and the 0%/15%/20% preferential tax rate applies with respect to the dividends.

Generally, an S corporation is not subject to an entity-level Federal income tax. Instead, the corporation's income, gains, deductions, and losses are passed through to and reported by the shareholders on their tax returns. Thus, Swallow reports the \$350,000 of earnings on its tax return (Form 1120S) but pays no income tax. Kirk is taxed on the \$350,000 of earnings from Swallow on his individual income tax return (Form 1040). Distributions from S corporations are not taxable to the shareholder (to the extent of stock basis). Thus, Kirk is not taxed on the \$75,000 distribution from Swallow.

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA: FN-Reporting
KEYWORDS: Bloom's: Analysis
OTHER: Time: 5 min.
DATE CREATED: 1/9/2019 1:37 PM
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

64. What is a limited liability company? What favorable nontax and tax attributes does the LLC entity form offer taxpayers?

ANSWER: Similar to the corporate entity form, a limited liability company is an entity created under the laws of a specific state (or the District of the Columbia) and, pursuant to such laws, an LLC has the corporate feature of limited liability. This is the primary nontax characteristic that makes LLC status attractive. Other nontax attributes that are available with the LLC entity form include centralized management, continuity of life, and free transferability of ownership interests. Which of these nontax attributes are allowed will be dependent on the laws of the state of LLC organization. The principal tax advantage of the LLC entity form is the ability to avoid double taxation of the entity's profits. Most LLCs will be taxed as either partnerships (two or more owner LLCs) or sole proprietorships (one-owner LLCs), although the check-the-box Regulations do provide the opportunity to have an LLC taxed as a corporation (including an S corporation).

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-01 - LO: 2-01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

65. The qualified business income deduction is severely limited for specified services businesses. What is a specified service trade or business?

ANSWER: A specified service trade or business includes those involving:

The performance of services in certain fields, including health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services

Services consisting of investing and investment management, trading or dealing in securities, partnership interests, or commodities; and

Any trade or business in which its principal asset is the reputation of one or more of its employees or owners.

Architects and engineers are specifically excluded from this definition.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN-Reporting

KEYWORDS: Bloom's: Knowledge

OTHER: Time: 5 min.

DATE CREATED: 1/9/2019 1:37 PM

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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

66. Describe the limitations on the qualified business income deduction that apply to high income taxpayers.

ANSWER: The basic application of § 199A becomes considerably more complex once a taxpayer reaches certain taxable income thresholds. These taxable income thresholds – determined without regard to the QBI deduction – are \$321,400 for married taxpayers filing jointly and \$160,700 for all other taxpayers in 2019. These amounts will be indexed for inflation annually. Once these thresholds are reached, § 199A imposes two *independent* limitations:

- First, § 199A imposes a cap on the QBI deduction that is determined by reference to a percentage of the W-2 wages paid by the business (i.e., wages paid
1. to its employees) or by references to a smaller percentage of W-2 wages paid and a percentage of the cost of its depreciable property used to produce QBI.
 2. Second, the QBI deduction generally is not available for income earned from certain specified service businesses.

POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
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KEYWORDS: Bloom's: Comprehension
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Chapter 02: The Deduction for Qualified Business Income for Pass-Through Entities

67. How does property used in a qualified trade or business factor into the QBI deduction calculation? What types of property are considered for the QBI deduction?

ANSWER: Qualified property is used to determine one of the limitations to the QBI deduction. Specifically, 2.5 percent of qualified property is added to 25 percent of W-2 wages to determine this limitation.

Qualified property includes depreciable tangible property – real or personal – that is used by the QTBE during the year and whose “depreciable period” has not ended before the end of the taxable year. As a result, land and intangible assets are not qualified property. Given the broad-based changes to MACRS – allowing taxpayers to expense (via § 179 and/or bonus depreciation) property other than real estate – the depreciable period for qualified property under § 199A is a minimum of 10 years.

POINTS: 1

DIFFICULTY: Easy

QUESTION TYPE: Essay

HAS VARIABLES: False

STUDENT ENTRY MODE: Basic

LEARNING OBJECTIVES: CPET.SWFT.2020.LO: 2-04 - LO: 2-04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA: FN- Measurement

KEYWORDS: Bloom's: Comprehension

OTHER: Time: 5 min.

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