

2025 OBBBA Update: QBI Deduction Changes You Need to Know

Let's talk about a tax break that could make a big difference for business owners, the qualified business income deduction, or QBI deduction. If you own a pass-through business, this is something you'll want to understand.

What is the QBI deduction? It lets many pass-through businesses deduct up to 20% of their qualified income, and that could mean serious tax savings, depending on your income and business structure.

If you operate as a sole proprietor, partnership, S corporation, or certain trusts and estates, you may qualify. The deduction is calculated separately from your standard or itemized deductions, and it reduces your taxable income, not your business income directly. Here are some key areas to understand.

First, there is an income threshold to qualify. If your taxable income is below certain limits, you generally qualify without additional restrictions. Once you're over those thresholds, things get more complex. There are also phase in ranges. For single filers, the range is \$75,000. For joint filers, it's \$150,000. Above these amounts, you may face limitations based on W2 wages, paid and qualified property owned by the business. If you're in a specified service trader or business like law, accounting, or consulting, the deduction may be phased out entirely once your income goes beyond the upper limit.

Taking advantage of the QBI deduction starts with knowing where your income falls and whether your business meets the wage and property tests. The right planning can help you maximize the amount you're eligible to claim. Here are a few things you can do now to determine if you qualify for the QBI deduction: check your income against the thresholds, review your W2 wages and qualified property levels, consider whether your business structure is optimized for this deduction.

The QBI deduction is a valuable opportunity for a pass-through business. A little strategic planning can go a long way toward keeping more of your income in your pocket. Talk with your tax advisor to see how this deduction fits into your broader tax strategy.

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