



The New 20% Tax Break for Financial Advisors

Could *You* be Missing Out?

Financial advisors may qualify for the new 20% tax deduction on qualified business income if they operate their practice as a pass-through business entity such as a sole proprietorship, S corporation, partnership or LLC. However, there are a couple of caveats that limit the application of the deduction.

● Deduction only applies to qualified business income

Not all income earned by a financial advisor is considered qualified business income (QBI). In general, QBI is non-investment income earned by the business, less the applicable expenses. It can be received as fees or commissions. It does not include W-2 wages or guaranteed payments received in partnerships/LLCs.

What Financial Advisor Compensation is Eligible for the QBI Deduction?			
Type of Owner	NOT Qualified Business Income	Qualified Business Income	Where to find QBI Amount on Tax Return
Employee	Not eligible	Not eligible	Not Applicable
C Corporate Owner/Employee	Not eligible	Not eligible	Not Applicable
Sole Proprietor	Not applicable	Net profits	Schedule C Line 31
Partner in Partnership/LLC	Guaranteed Payments	Ordinary Business Income	K-1 Line 1

● Deduction is subject to income limits

These income limits can potentially phaseout the deduction where the financial advisory practice is classified as a specified service business. A practice that helps clients with their investments and financial/retirement plans will be considered a specified service business while a predominately insurance practice is not a specified service business.

● Phaseout income limits are based on taxable income

The phaseout income limits are based on taxable income while the deduction is calculated based on qualified business income. For the phaseout taxable income limits for a financial advisor who has a practice that is predominately focused on investments and planning, view the table at right.

Type of Deduction	Married Filing Joint	Other Taxpayers (Single)
	Taxable Income:	Taxable Income:
Full Deduction	Under \$315,000	Under \$157,500
Partial Deduction	\$315,000 - \$415,00	\$157,000 - \$207,500
No Deduction	Over \$415,000	Over \$207,500



EXAMPLE

A married financial advisor in a practice structured as an S corporation earns \$150,000 wages plus \$80,000 distribution. His spouse receives W-2 wages of \$75,000 as a nurse. Their total income is \$305,000 and because of their marital status they qualify for the \$24,000 standard deduction, making their taxable income \$281,000. Because the co-owner's taxable income is less than \$315,000 they will qualify for the full QBI deduction.

The QBI deduction will be $20\% \times \$80,000 = \$16,000$.



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