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IRS Federal Tax Updates

Presenters:

Richard G. Furlong, Jr.
Senior Stakeholder Liaison
Communications & Liaison Division
267-941-6343
Richard.G.Furlong@irs.gov

Veronica Tubman
Senior Stakeholder Liaison
Communications & Liaison Division
443-853-5065
Veronica.Tubman@irs.gov



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Treasury, IRS issue final regulations, other guidance on new qualified business income deduction; Safe harbor enables many rental real estate owners to claim deduction

IR-2019-04

WASHINGTON — Today the Treasury Department and the Internal Revenue Service issued final regulations and three related pieces of guidance, implementing the new qualified business income (QBI) deduction (section 199A deduction).

The new QBI deduction, created by the 2017 Tax Cuts and Jobs Act (TCJA) allows many owners of sole proprietorships, partnerships, S corporations, trusts, or estates to deduct up to 20 percent of their qualified business income. Eligible taxpayers can also deduct up to 20 percent of their qualified real estate investment trust (REIT) dividends and publicly traded partnership income.

The QBI deduction is available in tax years beginning after Dec. 31, 2017, meaning eligible taxpayers will be able to claim it for the first time on their 2018 Form 1040.

The guidance, released today includes:

- A set of [regulations](#), finalizing proposed regulations issued last summer, A new set of [proposed regulations](#) providing guidance on several aspects of the QBI deduction, including qualified REIT dividends received by regulated investment companies
- A [revenue procedure](#) providing guidance on determining W-2 wages for QBI deduction purposes,
- A [notice](#) on a proposed revenue procedure providing a safe harbor for certain real estate enterprises that may be treated as a trade or business for purposes of the QBI deduction

The proposed revenue procedure, included in Notice 2019-07, allows individuals and entities who own rental real estate directly or through a disregarded entity to treat a rental real estate enterprise as a trade or business for purposes of the QBI deduction if certain requirements are met. Taxpayers can rely on this safe harbor until a final revenue procedure is issued.

The QBI deduction is generally available to eligible taxpayers with 2018 taxable income at or below \$315,000 for joint returns and \$157,500 for other filers. Those with incomes above these levels, are still eligible for the deduction but are subject to limitations, such as the type of trade or business, the amount of W-2 wages paid in the trade or business and the unadjusted basis immediately after acquisition of qualified property. These limitations are fully described in the final regulations.

The QBI deduction is not available for wage income or for business income earned by a C corporation.

For details on this deduction, including answers to frequently-asked questions, as well as information on other TCJA provisions, visit IRS.gov/taxreform.



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Qualified business income deduction

FS-2019-8, April 2019

Many individuals, including owners of businesses operated through sole proprietorships, partnerships, S corporations, trusts and estates may be eligible for a qualified business income deduction, also called the section 199A deduction. Some trusts and estates may also claim the deduction directly.

The deduction allows them to deduct up to 20 percent of their qualified business income (QBI), plus 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. Income earned by a C corporation or by providing services as an employee isn't eligible for the deduction.

The deduction is available for tax years beginning after Dec. 31, 2017. Eligible taxpayers can claim it for the first time on their 2018 federal income tax returns filed in 2019.

The deduction has two components.

1. **QBI component.** This component of the deduction equals 20 percent of QBI from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. Depending on the taxpayer's taxable income, the QBI Component is subject to limitations including:
 - a. The type of trade or business,
 - b. The amount of W-2 wages paid by the qualified trade or business, and
 - c. The unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business.

These limitations do not apply to taxpayers with taxable income at or below a certain threshold. For 2018, the threshold amount is \$315,000 for a married couple filing a joint return, and \$157,500 for all other taxpayers.

It may also be reduced by the patron reduction if the taxpayer is a patron of an agricultural or horticultural cooperative.

2. **REIT/PTP component.** This component of the deduction equals 20 percent of qualified REIT dividends and qualified PTP income. This component is not limited by W-2 wages or the UBIA of qualified property. Depending on the taxpayer's taxable income, the amount of PTP income that qualifies may be limited if the PTP is engaged in a specified service trade or business.

The deduction is limited to the lesser of the QBI component plus the REIT/PTP component or 20 percent of the taxable income minus net capital gain. The deduction is available regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

Qualified trade or business

A qualified trade or business is any section 162 trade or business, with three exceptions:

1. A trade or business conducted by a C corporation.
2. For taxpayers with taxable income that exceeds the threshold amount, specified services trades or business (SSTBs). An SSTB is a trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets or any trade or business principal asset is the reputation or skill of one or more of its employees or owners.

The principal asset of a trade or business is the reputation or skill of its employees or owners if the trade or business consists of the receipt of income from endorsing products or services, the use of an individual's image, likeness, voice or other symbols associated with the individual's identity, or appearance at events or on radio, television and other media outlets.

For 2018, the threshold amount is \$315,000 for a married couple filing a joint return, and \$157,500 for all other taxpayers. The SSTB limitations don't apply for taxpayers with taxable income at or below the threshold amount. Limitations are phased in for joint filers with taxable income between \$315,000 and \$415,000, and all other taxpayers with taxable income between \$157,500 and \$207,500. For later years, the threshold amounts and phase-in range will be adjusted for inflation.

3. Performing services as an employee.

For more information on what qualifies as a trade or business, see *Determining your qualified trades or businesses* in [Publication 535](#).

Rental real estate enterprise safe harbor

Solely for the purposes of 199A, a safe harbor is available to individuals and owners of passthrough entities. Under the safe harbor a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. For more information on the safe harbor see [Notice 2019-07](#).

Taxpayers may still treat rental real estate that doesn't meet the requirements of the safe harbor as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.

Qualified business income

QBI is the net amount of qualified items of income, gain, deduction and loss from any qualified trade or business, including income from partnerships, S corporations, sole proprietorships, and certain trusts. These includable items must be effectively connected with the conduct of a trade or business within the United States. Count only items in taxable income. Generally, in computing QBI, account for any deduction attributable to the trade or business. This includes, but is not limited to, the deductible part of self-employment tax, self-employed health insurance, and deductions for contributions to qualified retirement plans (such as SEP, SIMPLE and qualified plan deductions),

QBI doesn't include any of the following.

- Items not properly includible in income, such as losses or deductions disallowed under the basis, at-risk, passive loss or excess business loss rules.
- Investment items such as capital gains or losses, or dividends.
- Interest income not properly allocable to a trade or business.
- Wage income.

- Income not effectively connected with the conduct of business within the U.S. (For more information, go to [IRS.gov/ECI](https://www.irs.gov/ECI)).
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Amounts received as reasonable compensation from an S corporation.
- Amounts received as guaranteed payments from a partnership.
- Payments received by a partner for services other than in a capacity as a partner.
- Qualified REIT dividends.
- Qualified PTP income.

Information for computing the qualified business income deduction

The [Form 1040 Instructions](#) and Publication 535 provide worksheets to compute the deduction. Use the Form 1040 instructions if:

1. The taxpayer has QBI, qualified REIT dividends or qualified PTP income;
2. 2018 taxable income before QBI deduction **isn't more** than \$157,500 (\$315,000 if married filing jointly); and
3. The taxpayer **isn't a patron** in a specified agricultural or horticultural cooperative.

Use Publication 535 if:

1. The taxpayer has QBI, qualified REIT dividends or qualified PTP income, and
2. 2018 taxable income before QBI deduction **is more** than \$157,500 (\$315,000 if married filing jointly); or
3. The taxpayer **is a patron** in a specified agricultural or horticultural cooperative.

Cooperatives

Specified agricultural or horticultural cooperatives are allowed a deduction for income attributable to domestic production activities that is similar to the domestic production activities deduction under former section 199. Specified agricultural or horticultural cooperatives are cooperatives, to which Part I of subchapter T applies, that are engaged in the manufacturing, production, growth or extraction in whole or significant part of any agricultural or horticultural product, or in the marketing of agricultural or horticultural products.

More resources:

- IRS [Tax Reform](#) webpage
- [FAQs on Section 199A](#)
- [IRS News Release](#)



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IRS finalizes safe harbor to allow rental real estate to qualify as a business for qualified business income deduction

IR-2019-158

WASHINGTON — The Internal Revenue Service today issued [Revenue Procedure 2019-38](#) that has a safe harbor allowing certain interests in rental real estate, including interests in mixed-use property, to be treated as a trade or business for purposes of the qualified business income deduction under section 199A of the Internal Revenue Code (section 199A deduction).

If all the safe harbor requirements are met, an interest in rental real estate will be treated as a single trade or business for purposes of the section 199A deduction. If an interest in real estate fails to satisfy all the requirements of the safe harbor, it may still be treated as a trade or business for purposes of the section 199A deduction if it otherwise meets the definition of a trade or business in the section 199A regulations.

This safe harbor is available for taxpayers who seek to claim the section 199A deduction with respect to a “rental real estate enterprise.” Solely for purposes of this safe harbor, a rental real estate enterprise is defined as an interest in real property held to generate rental or lease income. It may consist of an interest in a single property or interests in multiple properties. The taxpayer or a relevant passthrough entity (RPE) relying on this revenue procedure must hold each interest directly or through an entity disregarded as an entity separate from its owner, such as a limited liability company with a single member.

The following requirements must be met by taxpayers or RPEs to qualify for this safe harbor:

- Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise.
- For rental real estate enterprises that have been in existence less than four years, 250 or more hours of rental services are performed per year. For other rental real estate enterprises, 250 or more hours of rental services are performed in at least three of the past five years.
- The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following: hours of all services performed; description of all services performed; dates on which such services were performed; and who performed the services.
- The taxpayer or RPE attaches a statement to the return filed for the tax year(s) the safe harbor is relied upon.

For more information about this and other TCJA provisions, visit IRS.gov/taxreform.

**Qualified Business Income Deduction
Simplified Computation**

Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**

Attachment
Sequence No. **55**

▶ **Go to www.irs.gov/Form8995 for instructions and the latest information.**

Name(s) shown on return

Your taxpayer identification number

1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i			
ii			
iii			
iv			
v			

2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2	
3	Qualified business net (loss) carryforward from the prior year	3	()
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7	()
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)		9
10	Qualified business income deduction before the income limitation. Add lines 5 and 9		10
11	Taxable income before qualified business income deduction	11	
12	Net capital gain (see instructions)	12	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	
14	Income limitation. Multiply line 13 by 20% (0.20)		14
15	Qualified business income deduction. Enter the lesser of line 10 or line 14. Also enter this amount on the applicable line of your return ▶		15
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-		16 ()
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-		17 ()

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Cat. No. 37806C

Form **8995** (2019)



Instructions for Form 8995

Qualified Business Income Deduction Simplified Computation

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8995 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8995](https://www.irs.gov/Form8995).

General Instructions

Purpose of Form

Use Form 8995 to figure your qualified business income (QBI) deduction. Individual taxpayers and some trusts and estates may be entitled to a deduction up to 20% of their net QBI from a trade or business, including income from a pass-through entity, but not from a C corporation, plus 20% of qualified real estate investment trust (REIT) dividends and qualified publicly trade partnership (PTP) income. However, your total QBI deduction is limited to 20% of your taxable income, calculated before the QBI deduction, minus net capital gain.

Who Must File

Individuals and eligible estates and trusts that have QBI use Form 8995 to figure the QBI deduction if:

- You have QBI, qualified REIT dividends, or qualified PTP income or loss (all defined later),
- Your 2019 taxable income before your QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), and
- You aren't a patron in a specified agricultural or horticultural cooperative.

Otherwise, use Form 8995-A, Qualified Business Income Deduction, to figure your QBI deduction.

S corporations and partnerships. S corporations and partnerships aren't eligible for the deduction, but must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1 to help them figure their deduction. See the Instructions for Form 1120-S, U.S. Income Tax Return for a S Corporations, and Form 1065, U.S. Return of Partnership Income.

Cooperatives. Cooperatives aren't eligible for the deduction. Instead, cooperatives must provide the necessary

information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction. See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations, for rules applicable to agricultural and horticultural cooperatives.

Estates and trusts. To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI for the owned part of the trust as if that QBI had been received directly by the owner. Generally, a non-grantor trust or estate may either claim the QBI deduction or provide information to their beneficiaries to help the beneficiaries figure their deduction. In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and unadjusted basis immediately after acquisition (UBIA) of qualified property are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction, to the extent QBI, W-2 wages, and UBIA of qualified property is allocable to the trust, QBI, W-2 wages, and UBIA of qualified property allocated to beneficiaries aren't includible in the estate's or trust's QBI computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Electing Small Business Trusts

(ESBT). An ESBT must compute the QBI deduction separately for the S and non-S portions of the trust. Form 8995 used to compute the S portion's QBI deduction must be attached as a PDF to the ESBT tax worksheet filed with Form 1041. When attached to the ESBT tax worksheet, the trust must show that the information is applicable to the S portion only, by writing "ESBT" in the top margin of the Form 8995. See the Instructions for Form 1041.

Determining Your Qualified Trades or Businesses

Your qualified trades and businesses include your trades or businesses for

which you're allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee aren't qualified trades or businesses. Generally, specified service trades or businesses (SSTBs) aren't qualified trades or businesses. However, all or a part of the SSTB may be qualified trade or business if your taxable income is below the threshold or within the phase-in range.

An activity qualifies as a trade or business if your primary purpose for engaging in the activity is for income or profit and you're involved in the activity with continuity and regularity. If you own an interest in a pass-through entity, the trade or business determination is made at that entity's level. Material participation under section 469 isn't required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, [Notice 2019-07](#) provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Rental real estate that doesn't meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it's a section 162 trade or business.

The rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or businesses. The trade or business of performing services as an employee isn't a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 if "Statutory Employee" on Form W-2, box 13, is checked, aren't QBI. If you were previously an employee of a business and continue to provide substantially the same services to that business after you're no longer treated as an employee, there is a presumption that

you're providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You may rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a non-employee.

For more information on if you're an employee or an independent contractor, see Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

SSTBs excluded from your qualified trades or businesses. A SSTB is generally excluded from the definition of qualified trade or business.

A SSTB is any trade or business providing services in the fields of:

- Health;
- Law;
- Accounting;
- Actuarial science;
- Performing arts;
- Consulting;
- Athletics;
- Financial services;
- Brokerage services;
- Investing and investment management;
- Trading or dealing in securities;
- Partnership interests;
- Commodities;
- Any trade or business if the principal asset is the reputation or skill of one or more of its employees or owners is defined as any trade or business:

- Receiving fees, compensation, or other income for endorsing products or services;
- Licensing or receiving fees, compensation or other income for the use of taxpayer's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; or
- Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

Exception 1: If your 2019 taxable income before the QBI deduction is less than or equal to \$160,700 (\$160,725 if married filing separately or a married nonresident alien; \$321,400 if married filing jointly), your SSTB is treated as a qualified trade or business.

Exception 2: If your taxable income before the QBI deduction is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing separately or a married nonresident alien; \$321,400 and \$421,400 if married filing jointly), an applicable percentage of your SSTB is treated as a qualified trade or business.

Aggregation. If you're engaged in more than one trade or business, each trade or business is a separate trade or business

for purposes of section 199A. However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of figuring deduction, if you meet the following requirements.

1. You or a group of persons directly or indirectly own 50% or more of each trade or business for majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end,
2. None of the trades or businesses are an SSTB, and
3. The trades or businesses meet at least two of the following factors.
 - a. They provide products, property, or services that are the same or that are customarily offered together.
 - b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.
 - c. They are operated in coordination with, or reliance on, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you must attach the RPE's aggregations to your return. You may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, assuming the rules above are met.

If you choose to aggregate multiple trades or businesses, a statement similar to Schedule B (Form 8995-A) must be completed each year to show your trade or business aggregations and must include any aggregation of a RPE in which you hold a direct or indirect interest. Failure to disclose these aggregations may cause them to be disaggregated.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation.

Note. You must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wages and UBIA of qualified property limits. However, these limits will not apply until your income, before the QBI deduction, is more than the threshold. If your income is more than the threshold, you must use Form 8995-A.

Determining Your Qualified Business Income

Your QBI includes items of income, gain, deduction, and loss from your trades or

businesses that are effectively connected with the conduct of a trade or business in the United States. This includes income from partnerships (other than PTPs), S corporations, sole proprietorships, certain estates and trusts that are included or allowed in figuring your taxable income for the year. To figure the total amount of QBI, you must consider all items that are related to the trade or business. This includes, but isn't limited to, charitable contributions, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and contributions to qualified retirement plans. QBI doesn't include any of the following.

- Items that aren't properly included in income.
- Income that isn't effectively connected with the conduct of a trade or business within the United States (go to [IRS.gov/ECI](https://www.irs.gov/ECI)).
- Wage income (except "Statutory Employees" where Form W-2, box 13 is checked).
- Amounts received as reasonable compensation from a S corporation.
- Amounts received as guaranteed payments.
- Amounts received as payments by a partner for services other than in a capacity as a partner.
- Items treated as capital gains or losses under any provision of the Internal Revenue Code (Code).
- Dividends and dividend equivalents.
- Interest income not properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses.
- Income, loss, or deductions from notional principal contracts.
- Annuities (unless received in connection with the trade or business).
- Qualified REIT dividends.
- Qualified PTP income.

See the [QBI Flow Chart](#), later to figure if an item of income, gain, deduction, or loss is included in QBI.

Note. Your QBI doesn't include any losses or deductions disallowed for use in calculating taxable income in the current year, because losses limited or suspended under certain rules aren't included or allowed in determining your taxable income for the year. Examples include, but aren't limited to, section 179 deduction limitations and losses limited by basis, at-risk, passive loss, or section 461(l), excess business loss rules as losses limitations. Instead, these losses and deductions are taken into account in the tax year they're included in determining your taxable income. Loss and deduction items that were generated prior to 2018,

that are included in income during the year, aren't included in QBI.

When losses or deductions from a trade or business are suspended under any provision of the Code and not available for use in calculating taxable income in the year generated, you must determine the portion of the losses includible in QBI in subsequent years. If your trade or business is an SSTB, the determination of whether it's a qualified trade or business based on your taxable income is made in the year the loss is incurred. If your income is within the phase-in range in that year, you must determine the applicable percentage of suspended losses or deductions includible in QBI. The losses continue their status as either items of QBI or non-QBI for all subsequent years. Therefore, you must track each category of loss or deduction (e.g., section 465, 469, 1366, etc.) from year to year until the loss is included in taxable income. Each category's portion of loss allowed in calculating taxable income is treated as qualified business net loss carryforward (Form 8995, line 3, or Schedule C (Form 8995-A), line 2) in calculating the current year's QBI deduction.

Any suspended qualified business loss carryforward from an SSTB, when allowed in subsequent years, won't be included on the Schedule A (Form 8995-A).

Determining if items included on Schedule K-1 are included in QBI. The amounts reported on your Schedule K-1 as "QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations" from a partnership, S corporation, estate, or trust aren't automatically included in your QBI. To figure if the item of income, gain, deduction, or loss is included in QBI you must look to how it's reported on your federal income tax return. For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other section of the Code. Also, a section 1231 gain or loss is only includible in QBI if it isn't capital gain or loss. See the [QBI Flow Chart](#), below to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining if information reported on your Form 1099-PATR is included in QBI. The amounts reported to you as your share of a patronage dividends and similar payments on Form 1099-PATR aren't automatically included in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified income items on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is

below the threshold, in which case payments from SSTBs are included in your QBI.

If you received qualified payments reported to you on Form 1099-PATR from a specified agricultural or horticultural cooperative, you must reduce your QBI by the patron reduction and use Form 8995-A to compute your QBI deduction.

Determining if items on Schedule C (Form 1040 or 1040-SR) are included in QBI. The net gain or loss reported on your Schedule C (Form 1040 or 1040-SR) isn't automatically included in your QBI. See the [QBI Flow Chart](#), later to figure if an item of income, gain, deduction, or loss is included in QBI.

Determining Your Qualified REIT Dividends and Qualified PTP Income/Loss

Qualified REIT dividends include any dividends you received from a REIT held for more than 45 days and for which the payment isn't obligated to someone else and that isn't a capital gain dividend or qualified dividend, plus, your qualified REIT dividends received from a regulated investment company (RIC). This amount is reported to you on Form 1099-DIV, line 5.

Qualified PTP income or loss includes your share of qualified items of income, gain, deduction, and loss from a PTP. It also may include gain or loss recognized on the disposition of your partnership interest that isn't treated as a capital gain or loss.

Note. PTP income generated by an SSTB may be limited to the applicable percentage or excluded if your taxable income exceeds the threshold, in which case you may need to complete Part II of Schedule A (Form 8995-A). See the instructions for Form 8995-A for more information.

Specific Instructions

Line 1

If you aggregated multiple trades or businesses into a single business, enter the aggregation group name. For example, Aggregation 1, 2, 3, etc., instead of entering the business name, and leave line 1(b) blank.

Note. If you aggregated trades or businesses you must attach Schedule B (Form 8995-A) or similar schedule.

If you are relying on the safe harbor contained in [Notice 2019-07](#), enter each enterprise as identified on the statement required for use on the safe harbor. For example, Enterprise 1, 2, 3, etc.

Enter on line 1(b), the employer identification number (EIN). If you don't have an EIN, enter your social security number (SSN) or individual taxpayer identification number (ITIN). If you're the sole owner of an LLC that isn't treated as a separate entity for federal income tax purposes, enter the EIN given to the LLC. If you don't have an EIN, enter the owner's name, and tax identification number.

Line 2

If you have more than five trades or businesses, attach a statement with the name and taxpayer identification number of the trade(s) or business(es) and include the income and loss from those trade(s) or business(es) in the total for line 2.

Line 3

Include prior year qualified loss carryforwards even if the loss was unreported or the trade or business that generated the loss is no longer in existence. Also, include the QBI portion of losses or deductions suspended from use in calculating taxable income in the year generated that are included in taxable income in the current year. See [Determining Your Qualified Business Income](#), earlier.

Line 4

If you have a qualified business net loss for the year, you don't qualify for the QBI deduction unless you have qualified REIT dividends or PTP income. The loss will be carried forward to next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 6

Enter income as a positive number and losses as a negative number.

Line 8

Any negative amount will be carried forward to the next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 11

Enter your taxable income figured before any QBI deduction, computed as follows.

- Form 1040 or 1040-SR filers: Form 1040 or 1040-SR, line 8b, minus Form 1040 or 1040-SR, line 9.
- Form 1040-NR filers: Form 1040-NR, line 35, minus Form 1040-NR, line 37.
- Form 1041 filers: Form 1041, line 23, plus Form 1041, line 20.
- Form 1041-N filers: Form 1041-N, line 13, plus qualified income deduction reported on Form 1041-N, line 9.
- Form 990-T filers: Form 990-T, line 39, plus qualified business income deduction reported on Form 990-T, line 38.

- S-corporation portion of an ESBT filer: ESBT Tax Worksheet, line 13, plus, ESBT Tax Worksheet, line 11.

Line 12

Enter the amount from your tax return as follows.

- Form 1040 or 1040-SR, line 3a, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040 or 1040-SR, line 6. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.
- Form 1040-NR, line 10b, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040-NR, line 14. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero

or less, in which case nothing is added to the qualified dividends.

- Form 1041, line 2b(2), plus your net capital gain. For estates or trusts required to file Schedule D (Form 1041), add the qualified dividends to the smaller of Schedule D (Form 1041), line 18a(2), or line 19(2), unless either line 18a(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.
- Form 1041-N, line 2b, plus the smaller of Form 1041-N, Schedule D, line 10 or 11, unless line 10 or 11 is zero or less, in which case nothing is added to the qualified dividends.
- Form 990-T who are trusts, Schedule D (Form 1041), the smaller of line 18(a)(2) or 19(2), unless either line 18(a)(2) or 19(2) is zero or less, in which case the net capital gain for purposes of section 199A is zero.
- S-corporation portion of an ESBT, your ESBT Tax Worksheet, line 2b, plus the smaller of your ESBT's Schedule D (Form 1041), line 18a(2) or 19(2) is zero or less, in which case nothing is added to your qualified dividends.

Line 15

Enter this amount on your Form 1040 or 1040-SR, line 10; Form 1040-NR, line 38; Form 1041, line 20; Form 1041-N, line 9; Form 990-T, line 39; S-corporation portion of an ESBT, line 11.

Line 16

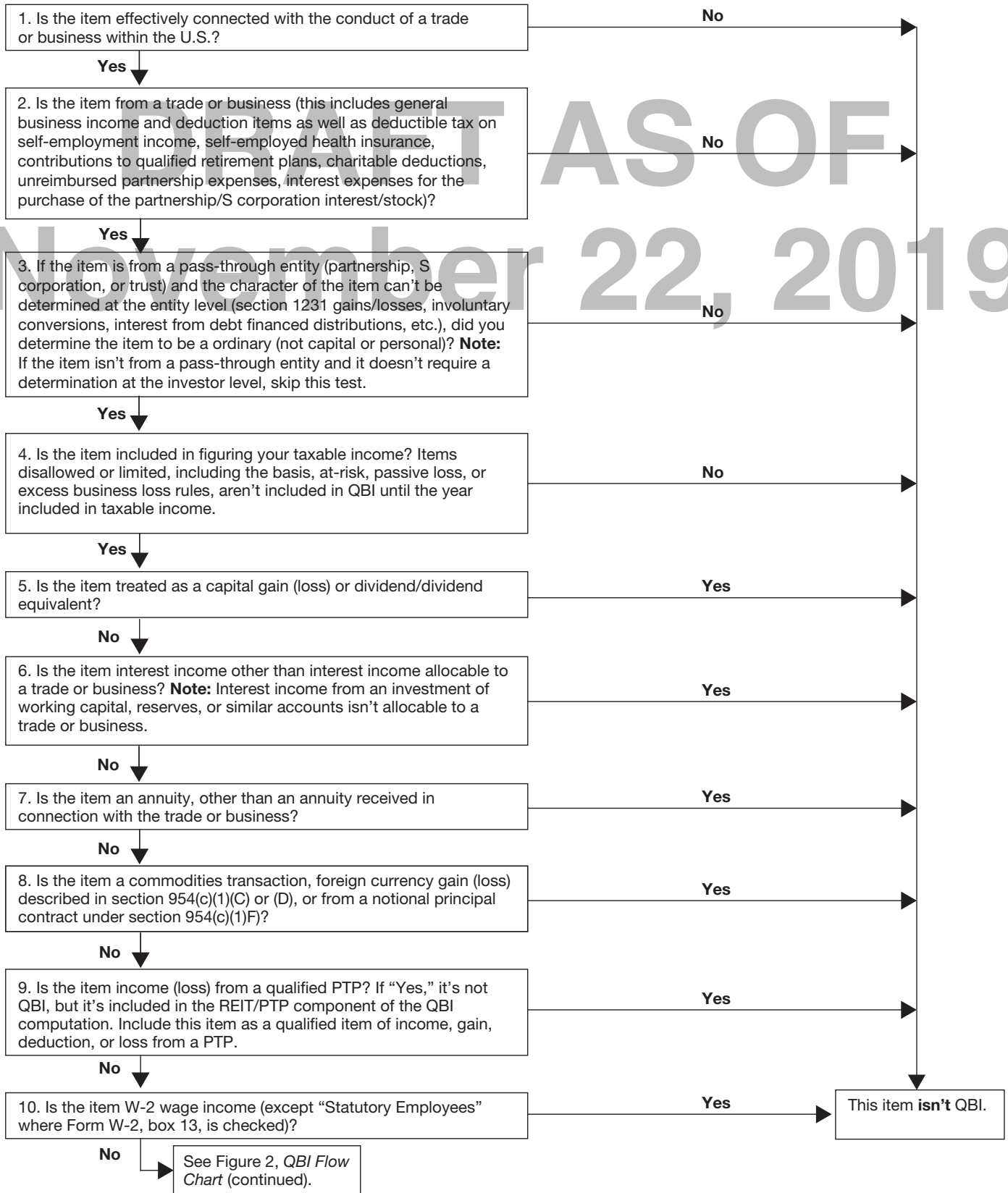
This is the amount to be carried forward to the next year. This amount will offset QBI in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 17

If the amount is more than zero the loss must be carried forward to next year. This amount will offset REIT/PTP income in later tax years regardless of whether it's reported and the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

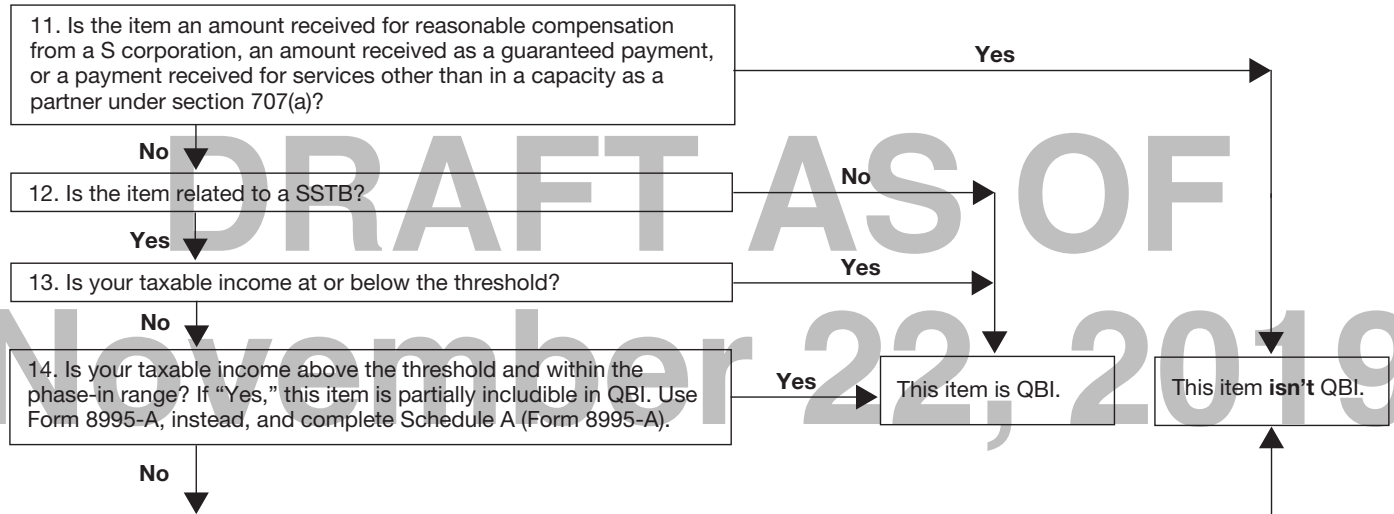
QBI Flow Chart

Figure 1. Use this chart to determine if an item of income, gain, deduction or loss is included in QBI.



QBI Flow Chart (continued)

Figure 2. Use this chart to help you determine if an item of income, gain, deduction or loss is included in QBI.



Qualified Business Income Deduction

Department of the Treasury
Internal Revenue Service

▶ **Attach to your tax return.**

▶ **Go to www.irs.gov/Form8995A for instructions and the latest information.**

2019
Attachment
Sequence No. **55A**

Name(s) shown on return

Your taxpayer identification number

Part I Trade, Business, or Aggregation Information

Complete Schedules A, B, and/or C (Form 8995-A), as applicable, before starting Part I. Attach additional worksheets when needed. See instructions.

1	(a) Trade, business, or aggregation name	(b) Check if specified service	(c) Check if aggregation	(d) Taxpayer identification number	(e) Check if patron
A		<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
B		<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>
C		<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>

Part II Determine Your Adjusted Qualified Business Income

	A	B	C
2 Qualified business income from the trade, business, or aggregation. See instructions	2		
3 Multiply line 2 by 20% (0.20). If your taxable income is \$160,700 or less (\$160,725 if married filing separately; \$321,400 if married filing jointly), skip lines 4 through 12 and enter the amount from line 3 on line 13	3		
4 Allocable share of W-2 wages from the trade, business, or aggregation	4		
5 Multiply line 4 by 50% (0.50)	5		
6 Multiply line 4 by 25% (0.25)	6		
7 Allocable share of the unadjusted basis immediately after acquisition (UBIA) of all qualified property	7		
8 Multiply line 7 by 2.5% (0.025)	8		
9 Add lines 6 and 8	9		
10 Enter the greater of line 5 or line 9	10		
11 W-2 wage and qualified property limitation. Enter the smaller of line 3 or line 10	11		
12 Phased-in reduction. Enter amount from line 26, if any. See instructions	12		
13 Qualified business income deduction before patron reduction. Enter the greater of line 11 or line 12	13		
14 Patron reduction. Enter the amount from Schedule D (Form 8995-A), line 6, if any. See instructions	14		
15 Qualified business income component. Subtract line 14 from line 13	15		
16 Total qualified business income component. Add all amounts reported on line 15 ▶	16		

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 71661B

Form **8995-A** (2019)

Part III Phased-in Reduction

Complete Part III only if your taxable income is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly) and line 10 is less than line 3. Otherwise, skip Part III.

		A	B	C
17	Enter amounts from line 3	17		
18	Enter the amounts from line 10	18		
19	Subtract line 18 from line 17	19		
20	Taxable income before qualified business income deduction	20		
21	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)	21		
22	Subtract line 21 from line 20	22		
23	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	23		
24	Phase-in percentage. Divide line 22 by line 23	24	%	
25	Total phase-in reduction. Multiply line 19 by line 24	25		
26	Qualified business income after phase-in reduction. Subtract line 25 from line 17. Enter this amount here and on line 12, for the corresponding trade or business	26		

Part IV Determine Your Qualified Business Income Deduction

27	Total qualified business income component from all qualified trades, businesses, or aggregations. Enter the amount from line 16	27		
28	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss). See instructions	28		
29	Qualified REIT dividends and PTP (loss) carryforward from prior years	29	()	
30	Total qualified REIT dividends and PTP income. Combine lines 28 and 29. If less than zero, enter -0-	30		
31	REIT and PTP component. Multiply line 30 by 20% (0.20)	31		
32	Qualified business income deduction before the income limitation. Add lines 27 and 31	32		
33	Taxable income before qualified business income deduction	33		
34	Net capital gain. See instructions	34		
35	Subtract line 34 from line 33. If zero or less, enter -0-	35		
36	Income limitation. Multiply line 35 by 20% (0.20)	36		
37	Qualified business income deduction before the domestic production activities deduction (DPAD) under section 199A(g). Enter the smaller of line 32 or line 36	37		
38	DPAD under section 199A(g) allocated from an agricultural or horticultural cooperative. Don't enter more than line 33 minus line 37	38		
39	Total qualified business income deduction. Add lines 37 and 38	39		
40	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 28 and 29. If zero or greater, enter -0-	40	()	

**SCHEDULE A
(Form 8995-A)**

Specified Service Trades or Businesses

OMB No. XXXX-XXXX

2019
Attachment
Sequence No. **55B**

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 8995-A.

▶ Go to www.irs.gov/Form8995A for instructions and the latest information.

Name(s) shown on return

Your taxpayer identification number

Complete Schedule A only if your trade or business is a specified service trade or business (see instructions) and your taxable income is more than \$160,700 but not \$210,700 (\$160,725 but not \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly). If your taxable income isn't more than \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly) and you're not a patron of an agricultural or horticultural cooperative, don't file this form; instead, file Form 8995, Qualified Business Income Deduction Simplified Computation. Otherwise, complete Schedule D (Form 8995-A) before beginning Schedule A. If your taxable income is more than \$210,700 (\$210,725 if married filing separately; \$421,400 if married filing jointly), your specified service trade or business doesn't qualify for the deduction. If you have more than three trades or businesses, attach as many Schedules A as needed. See instructions.

Part I Other Than Publicly Traded Partnerships (PTP)

		A	B	C
1a	Trade or business name	1a		
b	Taxpayer identification number	1b		
2	Qualified business income or (loss) from the trade or business	2		
3	Allocable share of W-2 wages from the trade or business	3		
4	Allocable share of the unadjusted basis immediately after acquisition (UBIA) of all qualified property	4		
5	Taxable income before qualified business income deduction	5		
6	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)	6		
7	Subtract line 6 from line 5	7		
8	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	8		
9	Divide line 7 by line 8	9		
10	Applicable percentage. Subtract line 9 from 100%	10	%	
11	Applicable percentage of qualified business income or (loss). Multiply line 2 by line 10. Enter this amount on Schedule C (Form 8995-A) or on Form 8995-A, line 2, for the corresponding trade or business, as appropriate. See instructions	11		
12	Applicable percentage of W-2 wages. Multiply line 3 by line 10. Enter this amount on Form 8995-A, line 4, for the corresponding trade or business, as appropriate. See instructions	12		
13	Applicable percentage of the UBIA of qualified property. Multiply line 4 by line 10. Enter this amount on Form 8995-A, line 7, for the corresponding trade or business, as appropriate. See instructions	13		

Part II Publicly Traded Partnership

		A	B	C
14	Trade or business name	14		
15	Taxpayer identification number	15		
16	Qualified PTP income or (loss)	16		
17	Total PTP specified service trade or business (SSTB) income or (loss). Combine all amounts on line 16	17		
18	Taxable income before qualified business income deduction	18		
19	Threshold. Enter \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly)	19		
20	Subtract line 19 from line 18	20		
21	Phase-in range. Enter \$50,000 (\$100,000 if married filing jointly)	21		
22	Divide line 20 by line 21	22		
23	Applicable percentage. Subtract line 22 from 100%	23	%	
24	Applicable percentage of qualified PTP income or (loss). Multiply line 17 by line 23. Include this amount on Form 8995-A, line 28	24		

**SCHEDULE B
(Form 8995-A)**

Department of the Treasury
Internal Revenue Service

Aggregation of Business Operations

▶ Attach to Form 8995-A.

▶ Go to www.irs.gov/Form8995A for instructions and the latest information.

OMB No. XXXX-XXXX

2019
Attachment
Sequence No. **55C**

Name(s) shown on return

Your taxpayer identification number

If you have more than one aggregated group, complete and attach as many Schedules B as needed. Number the first aggregation "1" and any additional aggregations in numerical order (2, 3, 4, etc.). See instructions.

Aggregation No.: _____

1 Provide a description of the aggregated trade or business and an explanation of the factors met that allow the aggregation in accordance with Regulations section 1.199A-4. In addition, if you hold a direct or indirect interest in a relevant pass-through entity (RPE) that aggregates multiple trades or businesses, you must attach a copy of the RPE's aggregations.

2 Has this trade or business aggregation changed from the prior year? This includes changes in the aggregation due to a trade or business being formed, acquired, disposed of, or ceasing operations. If "Yes," explain. If "No," skip line 2 and go to line 3.

3 (a) Name of trade or business	(b) Taxpayer identification number	(c) Qualified business income/(loss)	(d) W-2 wages	(e) Unadjusted basis immediately after acquisition
4 Totals. Total columns (c), (d), and (e). Enter the total amounts on Schedule C (Form 8995-A) or on Form 8995-A, Part II, for the corresponding aggregation, as appropriate. See instructions				

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 72685V

Schedule B (Form 8995-A) 2019

**SCHEDULE C
(Form 8995-A)**

Department of the Treasury
Internal Revenue Service

Loss Netting and Carryforward

▶ **Attach to Form 8995-A.**

▶ **Go to www.irs.gov/Form8995A for instructions and the latest information.**

OMB No. XXXX-XXXX

2019
Attachment
Sequence No. **55D**

Name(s) shown on return

Your taxpayer identification number

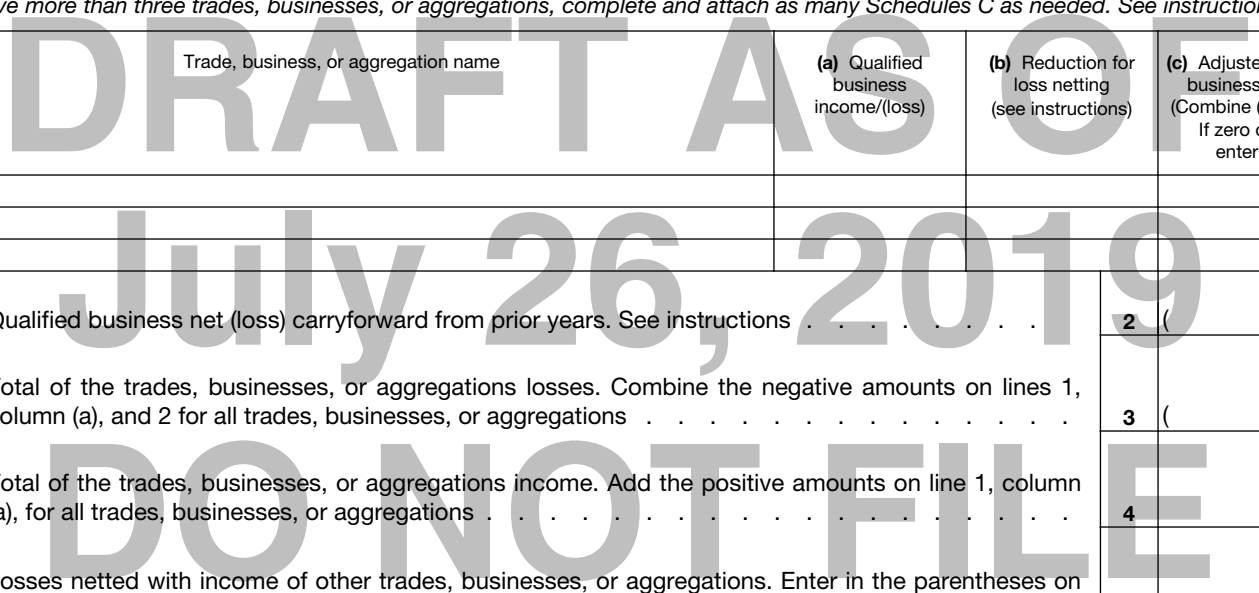
If you have more than three trades, businesses, or aggregations, complete and attach as many Schedules C as needed. See instructions.

1	Trade, business, or aggregation name	(a) Qualified business income/(loss)	(b) Reduction for loss netting (see instructions)	(c) Adjusted qualified business income (Combine (a) and (b). If zero or less, enter -0-.)
2	Qualified business net (loss) carryforward from prior years. See instructions			2 ()
3	Total of the trades, businesses, or aggregations losses. Combine the negative amounts on lines 1, column (a), and 2 for all trades, businesses, or aggregations			3 ()
4	Total of the trades, businesses, or aggregations income. Add the positive amounts on line 1, column (a), for all trades, businesses, or aggregations			4 ()
5	Losses netted with income of other trades, businesses, or aggregations. Enter in the parentheses on line 5, the smaller of the absolute value of line 3 or line 4. Allocate this amount to each of the trades, businesses, or aggregations on line 1, column (b). See instructions			5 ()
6	Qualified business net (loss) carryforward. Subtract line 5 from line 3. If zero or more, enter -0-			6 ()

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 72684K

Schedule C (Form 8995-A) 2019



**SCHEDULE D
(Form 8995-A)**

Department of the Treasury
Internal Revenue Service

Name(s) shown on return

**Special Rules for Patrons of
Agricultural or Horticultural Cooperatives**

▶ Attach to Form 8995-A.

▶ Go to www.irs.gov/Form8995A for instructions and the latest information.

OMB No. XXXX-XXXX

2019
Attachment
Sequence No. **55E**

Your taxpayer identification number

Complete Schedule D only if you're a patron of an agricultural or horticultural cooperative. If you have more than three trades, businesses, or aggregations, attach as many Schedules D as needed. See instructions.

	A	B	C
1a Trade, business, or aggregation name	1a		
b Taxpayer identification number	1b		
2 Qualified business income allocable to qualified payments received from cooperative. See instructions	2		
3 Multiply line 2 by 9% (0.09)	3		
4 W-2 wages from trade or business allocable to the qualified payments	4		
5 Multiply line 4 by 50% (0.50)	5		
6 Patron reduction. Enter the smaller of line 3 or line 5. Enter this amount on Form 8995-A, line 14, for the corresponding trade, business, or aggregation	6		

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 72683Z

Schedule D (Form 8995-A) 2019



Instructions for Form 8995-A

Deduction for Qualified Business Income

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8995-A and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8995A](https://www.irs.gov/Form8995A).

General Instructions

Purpose of Form

Use Form 8995-A to figure your qualified business income (QBI) deduction. Include the following schedules (their specific instructions are shown later), as appropriate:

- Schedule A (Form 8995-A), Specified Service Trades or Businesses (SSTB);
- Schedule B (Form 8995-A), Aggregation of Business Operations;
- Schedule C (Form 8995-A), Loss Netting and Carryforward;
- Schedule D (Form 8995-A), Special Rules for Patrons of Agricultural or Horticultural Cooperatives.

In general, the amount of your QBI deduction equals your QBI component plus your qualified real estate investment trust (REIT) and qualified publicly traded partnership (PTP) component (REIT/PTP component). However, the deduction is limited to the lesser of this amount or 20% of your taxable income, calculated before the QBI deduction, minus your net capital gain. Depending on your taxable income, your QBI component may also be limited based on the type of trade or business, W-2 wages paid by that business, and unadjusted basis immediately after acquisition (UBIA) of qualified property held by the business.

Who Can Take the Deduction

Individuals, estates, and trusts use Form 8995-A to figure the QBI deduction if:

- You have QBI, qualified REIT dividends, or qualified PTP income or loss; and
- Your 2019 taxable income before your QBI deduction is more than \$160,700 (\$160,725 if married filing separately; \$321,400 if married filing jointly); or
- You're a patron in a specified agricultural or horticultural cooperative.

Otherwise use Form 8995, Qualified Business Income Deduction Simplified Computation, to figure your QBI deduction.

S corporations and partnerships. S corporations and partnerships don't file Form 8995-A because they're not eligible for the

deduction, but they must pass through to their shareholders or partners the necessary information on an attachment to Schedule K-1 to help them figure their deduction.

See the Instructions for Form 1120-S, U.S. Income Tax Return for an S Corporation, and Form 1065, U.S. Return of Partnership Income.

Cooperatives. Cooperatives don't file Form 8995-A because they're not eligible for the deduction. Instead, cooperatives must provide the necessary information to their patrons on Form 1099-PATR or an attachment to help eligible patrons figure their deduction.

See the Instructions for Form 1120-C, U.S. Income Tax Return for Cooperative Associations.

Estates and trusts. To the extent that a grantor or another person is treated as owning all or part of a trust or estate, the owner will compute its QBI for the owned portion of the trust as if that QBI had been received directly by the owner. Generally, in the case of a non-grantor trust or estate, the trust or estate may either claim the QBI deduction or provide information to their beneficiaries to help beneficiaries figure their deduction. In determining the QBI deduction or the information that must be provided to beneficiaries, the estate or trust allocates QBI items based on the relative proportion of the estate's or trust's distributable net income (DNI) for the tax year that is distributed (or required to be distributed) to the beneficiary or retained by the estate or trust. If the estate or trust has no DNI for the tax year, QBI, W-2 wages, and UBIA of qualified property are allocated entirely to the estate or trust.

Although estates and trusts may compute their own QBI deduction to the extent QBI, W-2 wages, and UBIA of qualified property is allocated to the trust, QBI, W-2 wages, and UBIA of qualified property allocated to beneficiaries aren't includible in the estate or trust's QBI computation. See the Instructions for Form 1041, U.S. Income Tax Return for Estates and Trusts.

Electing Small Business Trusts (ESBT).

An ESBT is required to compute the QBI deduction separately for the S and non-S portions of the trust. If applicable, the Form 8995-A used to compute the S portion's QBI deduction must be attached to the ESBT tax worksheet filed with Form 1041. When attached to the ESBT tax worksheet, the trust must indicate that the information is applicable to the S portion only, by writing "ESBT" in the top margin of the Form 8995-A. See the instructions for Form 1041.

Determining Your QBI Deduction

Determine your QBI component. To figure your QBI deduction you must first determine your QBI component. Your QBI component is generally 20% of your QBI from your trades or businesses. However, if your taxable income (before the QBI deduction) exceeds the threshold (\$160,725 if married filing separately; \$321,400 if married filing jointly; \$160,700 for all others) your QBI for each of your trades or businesses may be partially or fully reduced to the greater of 50% of W-2 wages paid by the qualified trade or business, or 25% of W-2 wages plus 2.5% of the UBIA of qualified property from the qualified trade or business. The partial or full reduction to QBI is determined by your taxable income. If your taxable income (before the QBI deduction) is:

- At or below the threshold, you don't need to reduce your QBI;
- Above the threshold but below the phase-in range (more than \$160,725 but not \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly; \$160,700 and \$210,700 for all others), the reduction is phased in; or
- Above the threshold and phase-in range, the full reduction applies.

Also, if you're a patron of an agricultural or horticultural cooperative you must reduce your cooperative QBI by the lesser of:

- 9% of the QBI allocable to qualified payments, or
- 50% of W-2 wages from the trade or business allocable to the qualified payments.

Determining your qualified trades or business.

Your qualified trades and businesses generally include your trades or businesses for which you're allowed a deduction for ordinary and necessary business expenses under section 162. However, trades or businesses conducted by corporations and the performance of services as an employee are never qualified trades or businesses. Specified service trades or businesses (SSTB) aren't qualified trades or businesses for taxpayers with taxable income above the threshold (before the QBI deduction).

In general, to be engaged in a trade or business under section 162, you must conduct the activity with continuity and regularity and your primary purpose for engaging in the activity must be for income or profit. If you own an interest in a pass-through entity, the trade or business determination is made at that entity's level. Material participation under section 469 isn't

required for the QBI deduction. Eligible taxpayers with income from a trade or business may be entitled to the QBI deduction if they otherwise satisfy the requirements of section 199A.

The ownership and rental of real property may constitute a trade or business if it meets the standard described above. Also, [Notice 2019-07](#) provides a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Rental real estate that doesn't meet the requirements of the safe harbor may still be treated as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.

Also, the rental or licensing of property to a commonly controlled trade or business operated by an individual or a pass-through entity is considered a trade or business under section 199A.

Services performed as an employee excluded from qualified trades or business.

The trade or business of performing services as an employee isn't a trade or business for purposes of section 199A. Therefore, any amounts reported on Form W-2, box 1, other than amounts reported in box 1 where the "Statutory Employee" box in box 13 is checked, aren't QBI. If you were previously an employee of a business and continue to provide substantially the same services to that business after you're no longer treated as an employee, there is a presumption that you're providing services as an employee for purposes of section 199A for the 3-year period after ceasing to be an employee. You may rebut this presumption on notice from the IRS by providing records such as contracts or partnership agreements that corroborate your status as a non-employee. See Pub. 15-A, Employer's Supplemental Tax Guide, and Pub. 1779, Independent Contractor or Employee.

SSTBs excluded from your qualified trades or businesses. SSTBs generally are excluded from the definition of qualified trade or business if the taxpayer's taxable income exceeds the threshold plus the phase-in range. Therefore, no QBI, W-2 wages, or UBI of the qualified property from the specified service trade or business are taken into account in figuring your QBI deduction. If the SSTB is conducted by your pass-through entity, the same limitation applies to the pass-through items.

Exception 1: If your taxable income before the QBI deduction isn't more than \$160,700 (\$160,725 if married filing jointly), your SSTB is treated as a qualified trade or business, and thus may generate income eligible for the QBI deduction.

Exception 2: If your taxable income before the QBI deduction is more than \$160,700 but not \$210,700 (\$160,725 and \$210,725 if married filing jointly), \$321,400 and \$421,400 if married filing jointly), an applicable percentage of your SSTB is treated as a qualified trade or business.

An SSTB is any trade or business providing services in the fields of:

- Health, including physicians, pharmacists, nurses, dentists, veterinarians, physical therapists, psychologists, and other similar healthcare professionals. However, it excludes services not directly related to a medical services field, such as the operation of health clubs or spas; payment processing; or the research, testing, manufacture, and sale of pharmaceuticals or medical devices;
- Law, including lawyers, paralegals, legal arbitrators, mediators, and similar professionals. However, it excludes services that don't require skills unique to the field of law such as services by printers, delivery services, or stenography services;
- Accounting, including accountants, enrolled agents, return preparers, financial auditors, and similar professionals;
- Actuarial science, including actuaries, and similar professionals;
- Performing arts, including actors, singers, musicians, entertainers, directors, and similar professionals. However, it excludes services that don't require skills unique to the creation of performing arts, such as the maintenance and operation of equipment or facilities for use in the performing arts or the provision of services by persons who broadcast video or audio of performing arts to the public;
- Consulting, including persons providing clients with professional advice and counsel to assist in achieving goals and solving problems, and persons providing advice and counsel regarding advocacy with the intention of influencing decisions made by a government or governmental agency, and lobbyists attempting to influence legislators and other government officials on behalf of a client, and other similar professionals. However, it excludes the performance of services other than advice or counsel, such as sales or the provision of training and educational courses. It also excludes consulting services embedded in or ancillary to the activities of a trade or business that isn't an SSTB, if there is no separate payment for the consulting services;
- Athletics, including athletes, coaches, and team managers in sports such as baseball, basketball, football, soccer, hockey, martial arts, boxing, bowling, tennis, golf, skiing, snow-boarding, track and field, billiards, racing, and other forms of athletic competition. However, it excludes services that don't require skills unique to athletic competition, such as the maintenance and operation of equipment or facilities for use in athletic events or the provision of services by persons who broadcast video or audio of athletic events to the public;
- Financial services, including persons managing clients' wealth, advising clients on finances, developing retirement plans, developing wealth transition plans, providing advisory and other similar services regarding valuations, mergers, acquisitions, dispositions, restructurings (including in title 11 or similar cases), and raising financial capital by underwriting, or acting as a client's agent in the issuance of securities and

similar services. This includes services provided by financial advisors, investment bankers, wealth planners, retirement advisors, and other similar professionals. However, it excludes taking deposits or making loans, but does include arranging lending transactions between a lender and borrower;

- Brokerage services, including persons who arrange transactions between a buyer and a seller of securities for a commission or fee such as stock brokers and other similar professionals. However, it excludes services provided by real estate agents and brokers, or insurance agents and brokers;
- Investing and investment management, including persons providing, for a fee, investing, asset management, or investment management services, including providing advice on buying and selling investments. However, it excludes the service of directly managing real property;
- Trading, including persons who trade in securities (as defined in section 475(c)(2)), commodities (as defined in section 475(e)(2)), or partnership interests;
- Dealing securities (as defined in section 475(c)(2)), commodities (as defined in section 475(e)(2)), or partnership interests; and
- Any trade or business where the principal asset is the reputation or skill of one or more of its employees or owners, as demonstrated by:

- Receiving fees, compensation, or other income for endorsing products or services;
- Licensing or receiving fees, compensation or other income for the use of an individual's image, likeness, name, signature, voice, trademark, or any other symbols associated with the individual's identity; or
- Receiving fees, compensation, or other income for appearing at an event or on radio, television, or another media format.

De minimis rule 1. If your gross receipts from a trade or business are \$25 million or less and less than 10% of the gross receipts are from the performance of services in a specified service field, then your trade or business isn't considered SSTB, and thus may generate income eligible for the QBI deduction for the tax year, regardless of your taxable income.

De minimis rule 2. If your gross receipts from the trade or business are more than \$25 million and less than 5% of the gross receipts are from the performance of services, then your trade or business isn't considered an SSTB, and thus may generate income eligible for the QBI deduction for the tax year, regardless of your taxable income.

De minimis rule 3. If your trade or business provides services or property to an SSTB and there is 50% or more common ownership of the trades or businesses, that portion of the business that provides services or property to the SSTB is treated as a separate SSTB regarding the common owners.

Aggregation. If you're engaged in more than one trade or business, each trade or business is a separate trade or business for purposes of applying the W-2 wage limitation or the UBIA of qualified property limitation, discussed later. However, you may choose to aggregate multiple trades or businesses into a single trade or business for purposes of applying the limitations if you meet the following requirements.

1. You or a group of persons directly or indirectly own 50% or more of each trade or business for a majority of the tax year, including the last day of the tax year, and all trades or businesses use the same tax year end;

2. None of the trades or businesses are an SSTB; and

3. The trades or businesses meet at least two of the following factors.

a. They provide products, property, or services that are the same or that are customarily offered together.

b. They share facilities or share significant centralized business elements such as personnel, accounting, legal, manufacturing, purchasing, human resources, or information technology resources.

c. They are operated in coordination with, or reliance upon, one or more of the businesses in the aggregated group.

If a relevant pass-through entity (RPE) aggregates multiple trades or businesses, you must attach the RPE's aggregations to your Schedule B (Form 8995-A). You may not separate the trades or businesses aggregated by the RPE, but you may add additional trades or businesses to the aggregation, assuming the rules above are met. If you choose to aggregate multiple trades or businesses, complete Schedule B (Form 8995-A) before starting Part I of Form 8995-A.

Your aggregations must be reported consistently for all subsequent years, unless there is a significant change in facts and circumstances that disqualify the aggregation. Schedule B (Form 8995-A) must be completed each year to show your trade or business aggregation(s) and must include any aggregation of an RPE in which you hold a direct or indirect interest. Failure to disclose such aggregated trades or businesses may cause them to be disaggregated.

Note. You must combine the QBI, W-2 wages, and UBIA of qualified property for all aggregated trades or businesses, for purposes of applying the W-2 wage and UBIA of qualified property limitations.

Determining your qualified business income. Your QBI includes items of income, gain, deduction, and loss from any trades or businesses (or aggregated trades or businesses) that are effectively connected with the conduct of a trade or business within the United States. This includes income from partnerships (other than PTPs), S

corporations, sole proprietorships, and certain trusts and estates that are included or allowed in determining your taxable income for the year. To determine the total amount of QBI, the taxpayer must consider all items that are related to the trade or business including, but not limited to, charitable contributions, unreimbursed partnership expenses, business interest expense, deductible part of self-employment tax, self-employment health insurance deduction, and self-employed SEP, SIMPLE, and qualified plan deductions.

Note. Your QBI doesn't include any losses or deductions disallowed under the basis, at-risk, passive loss, or section 461(l) excess business loss limitations, as losses limited or suspended under these rules aren't included or allowed in determining your taxable income for the year. Instead, these losses and deductions are taken into account in the tax year they're included in determining your taxable income. Loss and deduction items that were generated prior to 2018, that are included in income during the year, are not included in QBI.

QBI doesn't include any of the following.

- Items that aren't properly includible in income.
 - Income that isn't effectively connected with the conduct of a trade or business within the United States (go to [IRS.gov/efci](https://www.irs.gov/efci)).
 - Wage income (except "Statutory Employees" where Form W-2, box 13, is checked).
 - Amounts received as reasonable compensation from an S corporation.
 - Amounts received as guaranteed payments.
 - Amounts received as payments by a partner for services other than in a capacity as a partner.
 - Items treated as capital gains or losses under any provision of the Code.
 - Dividends and dividend equivalents.
 - Interest income, other than interest income properly allocable to a trade or business.
- Note.** Interest income attributable to an investment of working capital, reserves, or similar accounts isn't properly allocable to a trade or business.
- Commodities transactions or foreign currency gains or losses described in section 954(c)(1)(C) or (D).
 - Income, loss, or deductions from notional principal contracts under section 954(c)(1)(F).
 - Annuities (unless received in connection with the trade or business).
 - Qualified REIT dividends.
 - Qualified PTP income.

Determining whether items included on Schedule K-1 are includible in QBI. The amounts reported on your Schedule K-1 as "QBI/Qualified PTP Items Subject to Taxpayer-Specific Determinations" from a partnership, S corporation, estate, or trust aren't automatically includible in your QBI. To determine if the item of income, gain, deduction, or loss is includible in QBI you must look to how it is reported on your

federal income tax return. For example, ordinary business income or loss is generally included in QBI if it was used in computing your taxable income, not excluded, suspended, or disallowed under any other Code section. Also, a section 1231 gain or loss is only includible in QBI if it isn't capital gain or loss. See the [QBI Flow Chart](#) below to determine if an item of income, gain, deduction, or loss is includible in QBI.

Determining whether information reported on your Form 1099-PATR is includible in QBI. The amounts reported to you as your share of patronage dividends and similar payments on Form 1099-PATR aren't automatically includible in your QBI. Payments may be included in QBI to the extent they are (1) related to your trade or business, (2) reported to you by the cooperative as qualified items of income on an attachment to Form 1099-PATR, and (3) not payments reported as from an SSTB, unless your taxable income is below the threshold, in which case payments from SSTBs are includible in your QBI.

If you received Qualified Payments reported to you on Form 1099-PATR from a specified cooperative, you're required to reduce your QBI by the patron reduction and are required to use Form 8995-A to compute your QBI deduction.

Determining whether items included on Schedule C (Form 1040 or 1040-SR) are includible in QBI. The net gain or loss as reported on your Schedule C (Form 1040 or 1040-SR) is not automatically includible in your QBI. See the [QBI Flow Chart](#) below to determine if an item of income, gain, deduction, or loss is includible in QBI.

QBI flow chart. Use the flow chart to determine if an item of income, gain, deduction, or loss is includible in QBI. See [QBI Flow Chart](#) below.

Determining your W-2 wages for limitation purposes. W-2 wages generally include amounts paid to employees for the performance of services, plus elective deferrals (for example, contributions to 401(k) plans), deferred compensation, and Roth IRA contributions. Amounts paid to statutory employees aren't W-2 wages when the "Statutory Employee" box on Form W-2, box 13, is checked.

If you conduct more than one trade or business, the W-2 wages must be allocated among the various trades or businesses (or aggregated trades or businesses) to the trade or business that generated the wage expense. Also, only the W-2 wages properly allocable to QBI are includible. W-2 wages are properly allocable to QBI if the associated wage expense is taken into account in computing QBI.

Before allocating W-2 wages among various trades or businesses (or aggregated trades or businesses) and/or allocating W-2 wages to QBI, first determine the total amount of W-2 wages. There are three methods to figure your W-2 wages.

- Unmodified box method.

- Modified box 1 method.
- Tracking wages method.

Unmodified box method. Under the unmodified box method, W-2 wages are the smaller of:

1. The sum of the amounts reported in box 1 of the relevant Forms W-2; or
2. The sum of the amounts reported in box 5 of the relevant Forms W-2.

Modified box 1 method. Under the modified box 1 method, W-2 wages are figured as follows.

1. Add the amounts reported in box 1 of the relevant Forms W-2.
2. Add all amounts not considered wages for federal income tax withholding purposes including, but not limited to:
 - a. Supplemental unemployment compensation benefits within the meaning of Rev. Rul. 90-72, and
 - b. Sick pay or annuity payments.
3. Subtract (2) from (1).
4. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
5. Add (3) and (4).

Tracking wages method. Under the tracking wages method, W-2 wages are figured as follows.

1. Add the amounts that are wages for federal income tax withholding purposes and that are also reported in box 1 of the relevant Forms W-2.
2. Add together any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S.
3. Add (1) and (2).

To figure your W-2 wages using one of the three methods above, generally use the sum of the amounts you properly report for each employee on Form W-2, Wage and Tax Statement, for the calendar year ending with or within your tax year. However, don't use any amounts reported on a Form W-2 filed with the Social Security Administration more than 60 days after its due date (including extensions).

Note. For purposes of determining W-2 wages for limitation purposes, fiscal year end trades or businesses include qualified amounts paid to employees for the calendar year ended with or within the business's taxable year.

Short tax year. If you have a short tax year, you must use the tracking wages method and do the following.

- Add the amounts that are wages for federal income tax withholding purposes, that are also reported on Form W-2, box 1, for the calendar year ending with or within that short tax year, and that are actually paid during the short tax year; plus
- Any amounts reported in box 12 of the relevant Forms W-2 that are properly coded D, E, F, G, or S for the calendar year ending with or within that short tax year that are

actually deferred or contributed during the short tax year.

However, if you have a short tax year that doesn't include a calendar year ending within that short tax year, the following wages are treated as W-2 wages for a short year.

- Wages you properly report on Form W-2 that you actually paid during the tax year, and
- Amounts reported on Forms W-2, box 12, that are properly coded D, E, F, G, or S that are actually deferred or contributed during the short tax year.

Acquisition or disposition of a trade or business. If you acquired or disposed of a trade or business that causes you and another employer to pay W-2 wages to employees of the acquired or disposed of trade or business during the calendar year, then the W-2 wages for the calendar year of the acquisition or disposition are allocated between each employer based on the period that the employees of the acquired or disposed of trade or business were employed by each employer. If you have a short tax year that doesn't include a calendar year ending within your short tax year, see [Short tax year](#), earlier.

Non-duplication rule. Amounts that are treated as W-2 wages for a tax year under any method can't be treated as W-2 wages for any other tax year. Also, an amount can't be treated as W-2 wages by more than one taxpayer.

Determining your UBIA. For purposes of determining your UBIA for all qualified property, the unadjusted basis immediately after acquisition means the basis on the placed-in-service date. Qualified property includes all tangible property subject to depreciation under section 167 that is held, and used in the production of QBI, by the trade or business (or aggregated trades or businesses) during and at the close of the tax year, for which the depreciable period hasn't ended before the close of the tax year. The depreciable period ends on the later of 10 years after the property is first placed in service by you or the last day of the last full year in the applicable recovery period under section 168(c). Additional first-year depreciation under section 168 doesn't affect the applicable recovery period.

Improvements to property that has already been placed in service are treated as separate qualified property.

For qualified replacement property acquired in a section 1031 exchange that is of a like-kind to the qualified relinquished property, or for qualified replacement property acquired in a section 1033 involuntary conversion that is similar or related in service or use to the qualified converted property, the UBIA of the qualified replacement property is the same as the UBIA of the qualified property exchanged, converted, decreased by excess boot or increased by the amount of money paid or the fair market value of property transferred by the taxpayer that isn't of a like-kind or similar or related in service or use.

Generally, replacement property retains the same placed-in-service date as that of the relinquished property. However, for the portion of the replacement property's UBIA that exceeds the relinquished property's UBIA, that portion is treated as separate qualified property placed in service on the date on which the replacement property is first placed in service.

Generally, property received in a non-recognition transaction (section 332, 351, 361, 721, or 731) retains the same UBIA and placed-in-service date as that of the transferor. However, for the portion of the transferee's UBIA that exceeds the transferor's UBIA, that portion is treated as separate qualified property placed in service on the date of the transfer.

Property acquired within 60 days of the year end that is disposed of within 120 days without being used by the trade or business for at least 45 days is generally not qualified property.

Determining Your REIT/PTP Component

Your qualified REIT/PTP component equals 20% of your qualified REIT dividends and qualified PTP income or loss (including your share of qualified REIT dividends and qualified PTP income or loss from RPEs).

Qualified REIT dividends include any dividend you received from a REIT held for more than 45 days and for which the payment isn't obligated to someone else and that isn't a capital gain dividend under section 857(b)(3) and isn't a qualified dividend under section 1(h)(11). Plus, your qualified REIT dividends include those received from a regulated investment company (RIC).

Qualified PTP income/(loss) includes your share of qualified items of income, gain, deduction, and loss from a PTP. It may also include gain or loss recognized on the disposition of your partnership interest that isn't treated as a capital gain or loss. It doesn't include any loss or deduction disallowed in determining your taxable income for the year.

Note. PTP income generated by an SSTB may be limited to the applicable percentage if your taxable income is within the phase-in range or completely excluded from qualified PTP income if your taxable income is above the phase-in range. See [Schedule A \(Form 8995-A\)—Specified Service Trades or Businesses \(SSTB\)](#) below.

Coordination With Other Code Sections

A net operating loss under section 172 is generally figured without the QBI deduction, meaning the QBI deduction can't create or increase the net operating loss. However, an excess business loss under section 461(l) is treated as a net operating loss carryforward to the following tax year and is taken into account for purposes of computing QBI in

the subsequent tax year in which it is deducted.

Alternative minimum tax. The QBI deduction that is used to determine regular tax is also used to determine alternative minimum taxable income.

Net earnings from self-employment aren't reduced by the QBI deduction when computing self-employment tax.

Net investment income isn't reduced by the QBI deduction when computing net investment income tax.

Puerto Rico. For purposes of determining QBI, the United States includes Puerto Rico for taxpayers who have taxable income from sources within Puerto Rico that are subject to tax under section 1. Further, W-2 wages are figured by including W-2 wages paid for services performed in Puerto Rico without regard to section 3401(a)(8).

Specific Instructions

You may need to complete Schedule A, B, C, and/or D, as applicable, prior to starting Part I of the form.

Taxable income before qualified business income deduction. Form 8995-A, Part III, Part IV, and Schedule A (Form 8995-A) each ask for your taxable income figured without regard to the QBI deduction. Enter your taxable income figured before any QBI deduction, computed as follows.

- Form 1040 or 1040-SR filers: Form 1040 or 1040-SR, line 8b, minus Form 1040 or 1040-SR, line 9.
- Form 1040-NR filers: Form 1040-NR, line 35, minus Form 1040-NR, line 37.
- Form 1041 filers: Form 1041, line 23, plus Form 1041, line 20.

Schedule A (Form 8995-A)—Specified Service Trades or Businesses (SSTB)

Complete Schedule A if your trade or business is an SSTB and your taxable income is more than \$160,700 but below \$210,700 (\$160,725 and \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly).

If your taxable income is \$160,700 or less (\$160,725 if married filing separately; \$321,400 if married filing jointly), skip Schedule A (Form 8995-A).

If your taxable income is \$210,700 or greater (\$210,725 if married filing separately; \$421,400 if married filing jointly), your SSTB doesn't qualify for the QBI deduction.

Schedule A (Form 8995-A), Part II, should be used for SSTBs that are PTPs, and Part I should be used for all other SSTBs.

See [SSTB excluded from your qualified trades or businesses](#), earlier.

Line 2. Enter your QBI/Qualified PTP income for each SSTB.

Lines 5 and 18. See [Taxable income before qualified business income deduction](#), earlier.

Schedule B (Form 8995-A)—Aggregation of Business Operations

If you qualify and choose to aggregate multiple trades or businesses into a single trade or business, you must complete Schedule B before starting Part I.

Line 3(c). Enter your QBI for each separate trade or business.

Line 4. If any of your aggregations have a net loss for the current year or you have a qualified business net loss carryforward from prior years, you must complete Schedule C (Form 8995-A) before starting Part I.

If none of your aggregations have a net loss in the current year and you don't have a qualified business loss carryforward from prior years, enter the total amounts on the appropriate lines of Form 8995-A, Part II.

Schedule C (Form 8995-A)—Loss Netting and Carryforward

If any of your trades, businesses, or aggregations have a net loss for the current year or you have a qualified business net loss carryforward from prior years, you must complete Schedule C (Form 8995-A) before starting Part I. This includes prior year loss carryforwards even if the loss was unreported or the trade or business that generated the loss is no longer in existence.

Schedule C (Form 8995-A) offsets your trade or business net losses against net income from your other trades or businesses. The net loss must be apportioned among all your trades or businesses with net income in proportion to their net income.

Note. The line items for this schedule are computed out of order: first figure line 1, column (a), and line 2; then skip to lines 3 through 5; and come back to line 1, columns (b) and (c).

Line 1, column (a). If you aggregated multiple trades or businesses into a single business on Schedule B (Form 8995-A), enter the aggregation group name, that is Aggregation 1, 2, 3, etc., instead of entering the business name and TIN along with the aggregated trade's or business's total income or loss.

Line 2. This is the amount reported in the prior year on line 6, or if the simplified worksheet was previously used, line 16. This includes prior year loss carryforwards even if the loss was unreported or the trade or business that generated the loss is no longer in existence.

Line 1, column (b). Apportion the amount from line 5 among all your trades or businesses with net income in proportion to their net income.

Line 1, column (c). Enter this amount on the corresponding line on Form 8995-A, Part II.

Note. If the adjusted QBI from the trade or business is zero or less after the reduction for loss netting, then the amount reported for W-2 wages and UBIA of qualified property must be zero for that trade or business, as the W-2 wages and UBIA of qualified property from that trade or business aren't allowed in computing your qualified business income limitations.

Line 6. The amount reported on this line must be reported in the next tax year on Schedule C (Form 8995-A), line 2, or Form 8995, Line 3, Qualified business net (loss) carryforward from prior years, as applicable. This amount will offset QBI in subsequent tax years regardless of whether it is reported and whether the trade or business that generated the loss is still in existence. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Note. If you have an overall net loss for the year, you don't qualify for a QBI deduction in the current year unless you have qualified REIT dividends or qualified PTP income.

Schedule D (Form 8995-A)—Special Rules for Patrons of Agricultural or Horticultural Cooperatives

You must complete Schedule D (Form 8995-A) if you're a patron in a specified agricultural or horticultural cooperative and are claiming a QBI deduction in relation to your trade or business conducted with the cooperative. A specified agricultural or horticultural cooperative is a cooperative that markets or is engaged in the manufacturing, production, growth, or extraction of any agricultural or horticultural products to which Part I of Subchapter T applies. See section 199A(g)(3).

Line 2. Qualified payments include patronage dividends and per-unit retains allocations.

Part I—Trade, Business, and Aggregation Information

You must complete Part I if you have QBI from a qualified trade, business, or aggregation. If you don't have QBI, and only have REIT, PTP and/or a domestic production activities deduction (DPAD), skip Parts I through III and complete Part IV. Before you begin completing Part I, determine if you need to complete Schedule A, B, or C by answering the following questions.

1. Do you have an SSBT? If yes, complete Schedule A (Form 8995-A) before starting Part I.
2. Are you choosing to aggregate multiple trades or businesses into a single trade or business? If yes, complete Schedule B (Form 8995-A) before starting Part I.
3. Did any of your trades, businesses, or aggregations have a net loss for the year or do you have a qualified business net loss

from prior years? If yes, complete Schedule C (Form 8995-A) before starting Part I.

Line 1. If you aggregated multiple trades or businesses into a single business on Schedule B (Form 8995-A), enter the aggregation group name. For example, Aggregation 1, 2, 3, etc., instead of entering the business name and leave line 1(d) blank.

Enter on line 1(d) the employer identification number (EIN). If you don't have an EIN, enter your social security number (SSN) or individual taxpayer identification number (ITIN). If you're the sole owner of an LLC that isn't treated as a separate entity for federal income tax purposes, enter the EIN given to the LLC. If you don't have such an EIN, enter the owner's name, and tax identification number.

Part II—Determine Your Adjusted Qualified Business Income

You must complete Part II if you have QBI from a qualified trade, business or aggregation.

Line 2. If you have more than four trades or businesses, attach a statement with the name and taxpayer identification number of the trade(s) or business(es) and include the income and loss from those trade(s) or business(es) in the total for line 2. See [Schedule C \(Form 8995-A\)—Loss Netting and Carryforward](#), earlier.

Line 4. Enter your W-2 wages from the trade, business, or aggregation.

Note. If the QBI on line 2, for the trade, business, or aggregation, is zero, then the amount reported on line 4, for that trade or business, must also be zero.

Line 7. Enter your share of the UBIA for all qualified property for the trade or business.

Note. If the QBI on line 2, for the trade, business, or aggregation, is zero, then the amount reported on line 7, for that trade or business, must also be zero.

Line 14. Patrons of agricultural or horticultural cooperatives are required to reduce their QBI deduction by the lesser of:

- 9% of QBI allocable to qualified payments from a specified cooperative, or
- 50% of W-2 wages allocable to qualified payments.

If you're a patron of an agricultural or horticultural cooperative, complete Schedule D (Form 8995-A). See the instructions for Schedule D (Form 8995-A), [Schedule D \(Form 8995-A\)—Special Rules for Patrons of Agricultural or Horticultural Cooperatives](#), earlier.

Part III—Phased-in Reduction

Complete Part III if your taxable income is more than \$160,700 but below \$210,700 (\$160,725 and \$210,725 if married filing separately; \$321,400 and \$421,400 if married filing jointly), and line 10, is smaller than line 3. Otherwise, skip Part III.

Line 20. See [Taxable income before qualified business income deduction](#), earlier.

Part IV—Determine Your Qualified Business Income Deduction

If you're claiming a QBI deduction, you must complete Part IV.

Line 28. If the next amount is a loss, enter as a negative number.

Any negative amount will be carried forward to the next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 29. Enter as a negative number.

Line 30. Any negative amount will be carried forward to the next year. This carryforward doesn't affect the deductibility of the loss for purposes of any other provisions of the Code.

Line 33. See [Taxable income before qualified business income deduction](#), earlier.

Line 34. Enter the amount from your tax return as follows.

- Form 1040 or 1040-SR, line 3a, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040 or 1040-SR, line 6. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16, unless line 15 or 16 is zero or less, in which case nothing is added to the qualified dividends.

- For Form 1040-NR, line 10b, plus your net capital gain. If you're not required to file Schedule D (Form 1040 or 1040-SR), your net capital gain is the amount reported on Form 1040-NR, line 14. If you file Schedule D (Form 1040 or 1040-SR), your net capital gain is the smaller of Schedule D (Form 1040 or 1040-SR), line 15 or 16.

- Form 1041, your qualified dividends on line 2b(2). For estates or trusts required to file Schedule D (Form 1041), add the qualified dividends to the smaller of Schedule D (Form 1041), line 18a(2), or line 19(2), unless either line 18a(2) or 19(2) is zero or less, in which case nothing is added to the qualified dividends.

Line 39. Enter the amount from line 39 on Form 1040 or 1040-SR, line 10; Form 1040-NR, line 38; or Form 1041, line 20, as applicable.

Line 40. If the amount is more than zero the loss must be carried forward to next year.

Figure 1. QBI Flow Chart

Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.

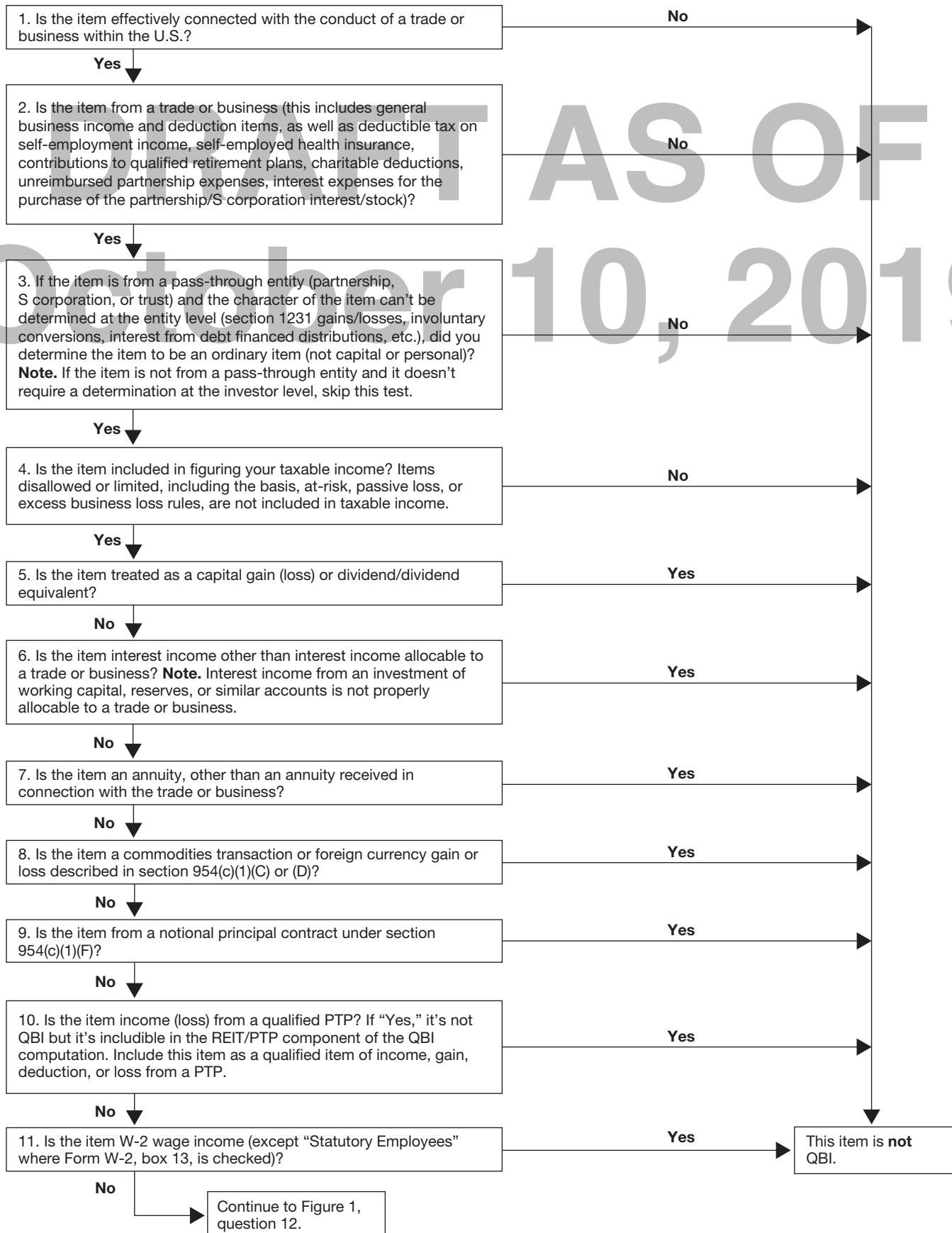
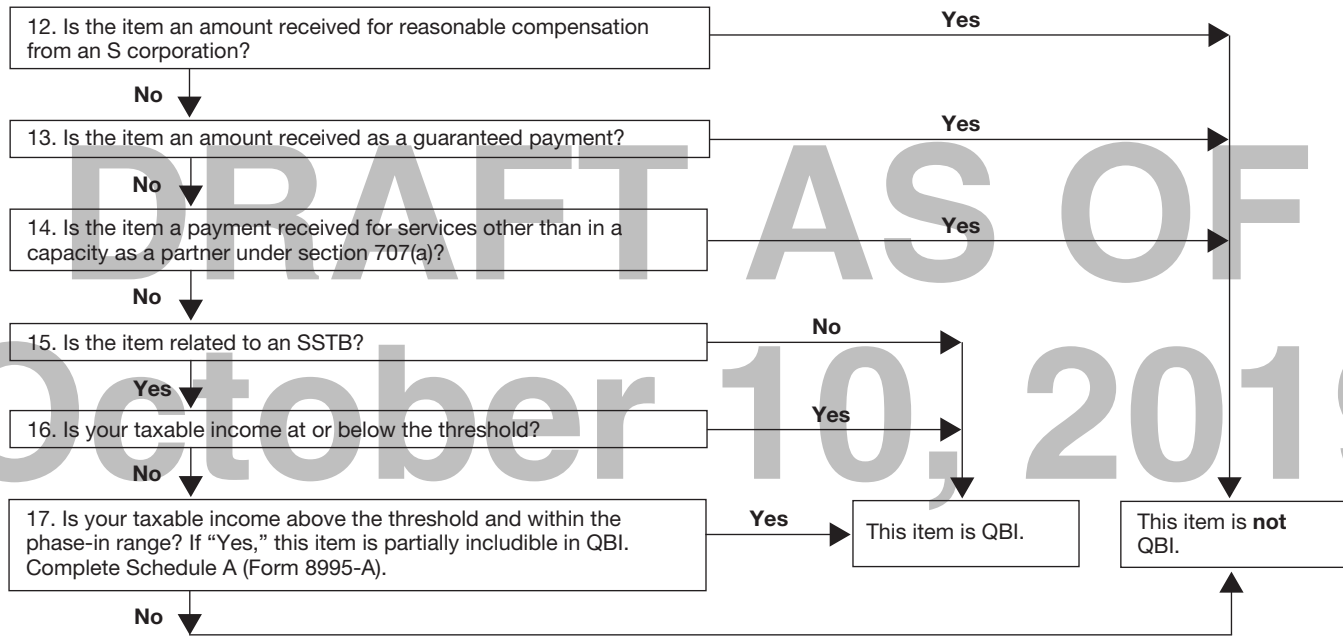


Figure 1. QBI Flow Chart (continued)

Use this chart to determine if an item of income, gain, deduction, or loss is included in QBI.





Paycheck Checkup Can Prevent a Tax-Time Surprise

It's important to check your federal income tax withholding now to avoid an unexpected tax bill or penalty with next year's return. The IRS Tax Withholding Estimator can help.

Everyone should check their withholding. It's especially important to check now if you:

- Had a large tax refund or tax bill the last time you filed
- Are a two-income family
- Have two or more jobs at the same time
- Work a seasonal job or only work part of the year
- Claim the child tax credit
- Have dependents age 17 or older
- Previously itemized your deductions
- Have high income or a complex tax return

Use the IRS Tax Withholding Estimator to do a Paycheck Checkup

- The IRS Tax Withholding Estimator helps figure out if you should submit a new Form W-4 to your employer or make estimated tax payments to the IRS before the end of the year.
- Have your most recent pay stub and federal tax return on hand.
- The estimator's results are only as accurate as the information you enter.
- Find the IRS estimator at ***IRS.gov/withholding***.

Employee's Withholding Certificate

▶ **Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.**
 ▶ **Give Form W-4 to your employer.**
 ▶ **Your withholding is subject to review by the IRS.**

2020

Step 1: Enter Personal Information	(a) First name and middle initial _____	Last name _____	(b) Social security number
	Address _____		▶ Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov .
	City or town, state, and ZIP code _____		
	(c) <input type="checkbox"/> Single or Married filing separately <input type="checkbox"/> Married filing jointly (or Qualifying widow(er)) <input type="checkbox"/> Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)		

Complete Steps 2 through 4 ONLY if they apply to you. To see if you are exempt from withholding or if you have concerns about your privacy, see page 2. Everyone must complete Step 5. See instructions on page 2.

Step 2: Multiple Jobs or Spouse Works Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at www.irs.gov/W4App for most accurate withholding; **or**
 (b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below for roughly accurate withholding; **or**
 (c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is accurate for jobs with similar pay; otherwise, more tax than necessary may be withheld ▶

CAUTION: If you have privacy concerns, choose (a) or (b). If you and/or your spouse have income from self-employment, including as an independent contractor, choose (a).

Complete Steps 3 through 4(b) on Form W-4 for only one of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3 through 4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependents	If your income will be \$200,000 or less (\$400,000 or less if married filing jointly): Multiply the number of qualifying children under age 17 by \$2,000 ▶ \$ _____ Multiply the number of other dependents by \$500 ▶ \$ _____ Add the amounts above and enter the total here 3 \$ _____	
Step 4 (optional): Other Adjustments	(a) Other income. If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income. You should not include income from any jobs 4(a) \$ _____	
	(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here 4(b) \$ _____	
	(c) Extra withholding. Enter any additional tax you want withheld each pay period 4(c) \$ _____	

Step 5: Sign Here	Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.		
	▶ _____ ▶		▶ _____ ▶
	Employee's signature (This form is not valid unless you sign it.)		Date

Employers Only	Employer's name and address _____	First date of employment _____	Employer identification number (EIN) _____
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General Instructions

Future Developments

For the latest information about developments related to Form W-4, such as legislation enacted after it was published, go to www.irs.gov/FormW4.

Purpose of Form

Complete this withholding allowance certificate so that your employer can withhold the correct federal income tax from your pay. If too little is withheld, generally you will owe tax when you file your tax return and may owe a penalty. If too much is withheld, generally you will be due a refund.

Complete a new Form W-4 when changes to your personal or financial situation would change the entries on the form. For more information on withholding and when you must furnish a new Form W-4, see Pub. 505.

Exemption from withholding. You may claim exemption from withholding for 2020 if you meet both of the following conditions: you owed no federal tax in 2019 **and** you expect to owe no federal income tax in 2020. You owed no federal income tax in 2019 if your total tax on line 16 on your 2019 Form 1040 is zero or if line 16 is less than the refundable credits on the total of lines 18a, 18b, and 18c. You expect to owe no federal income tax in 2020 if you expect the same result in 2020. If you claim exemption, you will have no income tax withheld from your paycheck and may owe taxes and penalties when you file your 2020 tax return. To claim exemption from withholding, certify that you meet both of the conditions above by writing "Exempt" on Form W-4 in the space below Step 4(c) and complete Steps 1 and 5. Do not complete any other steps on Form W-4. If you claim an exemption from withholding, you will need to submit a new Form W-4 by February 16, 2021.

Your Privacy

If you want additional withholding and are concerned about your privacy in Steps 2 and/or 4(a), you may check the box in Step 2(c) or enter an additional amount you want withheld per pay period in Step 4(c).

When to use the estimator. Consider using the estimator at www.irs.gov/W4App if you:

1. Expect to work only part of the year;
2. Have dividend or capital gain income or are subject to additional taxes, such as the net investment income tax;
3. Have self-employment income (see below);
4. Prefer the most accurate withholding for multiple job situations; or
5. Prefer to limit information provided in Steps 2 through 4 but don't want to sacrifice accuracy.

Self-employment. Generally, you will owe both income and self-employment taxes on any self-employment income you receive separate from the wages you receive as an employee. If you want to pay these taxes through withholding from your wages, use the estimator at www.irs.gov/W4App to figure the amount to have withheld.


Nonresident alien. If you're a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Specific Instructions

Step 1(c). Check your anticipated filing status. This will determine the standard deduction and tax rates used to compute your withholding.

Step 2. Use this step if you have more than one job at the same time or are married filing jointly and you and your spouse both work.

Consider checking the box in Step 2 if there are only two jobs in the household. The standard deduction and tax brackets will be divided equally between the two jobs.

 **Multiple job households.** Complete Steps 3 through 4(b) on only one Form W-4 in the household. Withholding will be most accurate if you do this on the Form W-4 for the highest paying job.

Step 3. Step 3 of Form W-4 provides instructions for determining the amount of the child tax credit and the credit for other dependents that you may be able to claim when you file your tax return. To qualify for the child tax credit, the child must be under age 17 as of December 31, must be your dependent who generally lives with you for more than half the year, and must have the required social security number. You may be able to claim a credit for other dependents for whom a child tax credit can't be claimed, such as an older child or a qualifying relative. For additional eligibility requirements for these credits, see Pub. 972, Child Tax Credit and Credit for Other Dependents. You can also include **other tax credits** in this step, such as education tax credits and the foreign tax credit. To do so, add an estimate of the amount for the year to your credits for dependents and enter the total amount in Step 3. Including these credits will increase your paycheck and reduce the amount of any refund you may receive when you file your tax return.

Step 4 (optional).

Step 4(a). Enter in this step the total of your other estimated income for the year, if any. You shouldn't include income from any jobs. If you complete Step 4(a), you likely won't have to make estimated tax payments for that income. If you prefer to pay estimated tax rather than having tax on other income withheld from your paycheck, see Form 1040-ES, Estimated Tax for Individuals.

Step 4(b). Enter in this step the amount from the Deductions Worksheet, line 5, if you expect to claim deductions other than the basic standard deduction on your 2020 tax return and want to reduce your withholding to account for these deductions. This includes both itemized deductions and other deductions such as for student loan interest and IRAs.

Step 4(c). Enter in this step any additional tax you want withheld from your pay **each pay period**, including any amounts from the Multiple Jobs Worksheet, line 4. Entering an amount here will reduce your paycheck and will either increase your refund or reduce any amount of tax that you owe.

Multiple Jobs Worksheet (Keep for your records.)



Use this worksheet if you choose the option in Step 2(b) on Form W-4. Complete this worksheet for only one of the jobs in the household and enter the result on the Form W-4 for that job. Withholding will be most accurate if you enter the result on the Form W-4 for the highest paying job.

Note: If more than one job has annual wages of more than \$99,000 or there are more than three jobs, see Pub. 505 for additional tables; or, you can use the online withholding estimator at www.irs.gov/W4App.

- 1 Two jobs. If you have two jobs or you're married filing jointly and your spouse also works, find the amount from the appropriate table on page 4. Using the "Higher Paying Job" row and the "Lower Paying Job" column, find the value at the intersection of the two household salaries and enter that value on line 1. Then, skip to line 3
2 Three jobs. If you and/or your spouse have three jobs at the same time, complete lines 2a, 2b, and 2c below. Otherwise, skip to line 3.
a Find the amount from the appropriate table on page 4 using the annual wages from the highest paying job in the "Higher Paying Job" row and the annual wages for your next highest paying job in the "Lower Paying Job" column. Find the value at the intersection of the two household salaries and enter that value on line 2a
b Add the annual wages of the two highest paying jobs from line 2a together and use the total as the wages in the "Higher Paying Job" row and use the annual wages for your third job in the "Lower Paying Job" column to find the amount from the appropriate table on page 4 and enter on line 2b
c Add the amounts from lines 2a and 2b and enter the result on line 2c
3 Enter the number of pay periods per year for the highest paying job. For example, if that job pays weekly, enter 52; if it pays every other week, enter 26; if it pays monthly, enter 12, etc.
4 Divide the annual amount on line 1 or line 2c by the number of pay periods on line 3. (You may round this to the closest whole dollar amount.) Enter this amount here and in Step 4(c) of Form W-4 for the highest paying job (along with any other additional amount you want withheld)

Deductions Worksheet (Keep for your records.)



- 1 Enter an estimate of your 2020 itemized deductions. Such deductions may include qualifying home mortgage interest, charitable contributions, state and local taxes (up to \$10,000), and medical expenses in excess of 10% of your income
2 Enter: { • \$XX,XXX if you're married filing jointly or qualifying widow(er) • \$XX,XXX if you're head of household • \$XX,XXX if you're single or married filing separately }
3 If line 1 is greater than line 2, subtract line 2 from line 1. If line 2 is greater than line 1, enter "-0-"
4 Enter an estimate of your student loan interest, deductible IRA contributions, and certain other adjustments. See Pub. 505 for more information
5 Add lines 3 and 4. Enter the result here and in Step 4(b) of Form W-4

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3402(f)(2) and 6109 and their regulations require you to provide this information; your employer uses it to determine your federal income tax withholding. Failure to provide a properly completed form will result in your being treated as a single person with no other entries on the form; providing fraudulent information may subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation; to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their tax laws; and to the Department of Health and Human Services for use in the National Directory of New Hires. We also may disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying widow(er) (QW)
 Check only one box. If you checked the MFS box, enter the name of spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent. ▶

Your first name and middle initial	Last name	Your social security number
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number
Home address (number and street), P.O. box, or instructions.		Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse
Foreign country name	Foreign province/state/county	Foreign postal code
If more than four dependents, see instructions and ✓ here ▶ <input type="checkbox"/>		

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness **You:** Were born before January 2, 1955 Are blind **Spouse:** Was born before January 2, 1955 Is blind

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) ✓ if qualifies for (see instructions):	
(1) First name	Last name			Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Standard Deduction for—
 • Single or Married filing separately, \$12,200
 • Married filing jointly or Qualifying widow(er), \$24,400
 • Head of household, \$18,350
 • If you checked any box under **Standard Deduction**, see instructions.

1 Wages, salaries, tips, etc. Attach Form(s) W-2			1
2a Tax-exempt interest	2a	b Taxable interest. Attach Sch. B if required	2b
3a Qualified dividends	3a	b Ordinary dividends. Attach Sch. B if required	3b
4a IRA distributions	4a	b Taxable amount	4b
c Pensions and annuities	4c	d Taxable amount	4d
5a Social security benefits	5a	b Taxable amount	5b
6 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ <input type="checkbox"/>			6
7a Other income from Schedule 1, line 9			7a
b Add lines 1, 2b, 3b, 4b, 4d, 5b, 6, and 7a. This is your total income ▶			7b
8a Adjustments to income from Schedule 1, line 22			8a
b Subtract line 8a from line 7b. This is your adjusted gross income ▶			8b
9 Standard deduction or itemized deductions (from Schedule A)	9		
10 Qualified business income deduction. Attach Form 8995 or Form 8995-A	10		
11a Add lines 9 and 10			11a
b Taxable income. Subtract line 11a from line 8b. If zero or less, enter -0-			11b

12a Tax (see inst.) Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	12a	
b Add Schedule 2, line 3, and line 12a and enter the total		12b
13a Child tax credit or credit for other dependents	13a	
b Add Schedule 3, line 7, and line 13a and enter the total		13b
14 Subtract line 13b from line 12b. If zero or less, enter -0-		14
15 Other taxes, including self-employment tax, from Schedule 2, line 10		15
16 Add lines 14 and 15. This is your total tax		16
17 Federal income tax withheld from Forms W-2 and 1099		17
18 Other payments and refundable credits:		
a Earned income credit (EIC)	18a	
b Additional child tax credit. Attach Schedule 8812	18b	
c American opportunity credit from Form 8863, line 8	18c	
d Schedule 3, line 14	18d	
e Add lines 18a through 18d. These are your total other payments and refundable credits		19
20 Subtract line 19 from line 16. If zero or less, enter -0-. This is the amount you owe. If you have a refund, enter the amount of the refund on line 20. If you were refunded tax on Form 8888, attach it, check here		20
a Routing number	c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
d Account number		
22 Amount of line 20 you want applied to your 2020 estimated tax	22	

Amount You Owe **23** Amount you owe. Subtract line 19 from line 16. For details on how to pay, see instructions **23**

24 Estimated tax penalty (see instructions) **24**

Third Party Designee (Other than paid preparer) Do you want to allow another person (other than your paid preparer) to discuss this return with the IRS? See instructions. Yes. Complete below. No

Designee's name Phone no. Personal identification number (PIN)

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	If the IRS sent your spouse an Identity Protection PIN, enter it here (see inst.)
Phone no.	Email address		

Paid Preparer Use Only

Preparer's name	Preparer's signature	Date	PTIN	Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed
Firm's name	Phone no.			
Firm's address	Firm's EIN			

• If you have a qualifying child, attach Sch. EIC.
• If you have nontaxable combat pay, see instructions.

September 11, 2019

DRAFT AS

DO NOT FILE

SCHEDULE 1
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Income and Adjustments to Income

▶ **Attach to Form 1040 or 1040-SR.**

▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **01**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

At any time during 2019, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency? Yes No

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1
2a	Alimony received	2a
b	Date of original divorce or separation agreement (see instructions) ▶	
3	Business income or (loss). Attach Schedule C	3
4	Other gains or (losses). Attach Form 4797	4
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5
6	Farm income or (loss). Attach Schedule F	6
7	Unemployment compensation	7
8	Other income. List type and amount ▶	8
9	Combine lines 1 through 8. Enter here and on Form 1040 or 1040-SR, line 7a	9

Part II Adjustments to Income

10	Educator expenses	10
11	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	11
12	Health savings account deduction. Attach Form 8889	12
13	Moving expenses for members of the Armed Forces. Attach Form 3903	13
14	Deductible part of self-employment tax. Attach Schedule SE	14
15	Self-employed SEP, SIMPLE, and qualified plans	15
16	Self-employed health insurance deduction	16
17	Penalty on early withdrawal of savings	17
18a	Alimony paid	18a
b	Recipient's SSN ▶	
c	Date of original divorce or separation agreement (see instructions) ▶	
19	IRA deduction	19
20	Student loan interest deduction	20
21	Reserved for future use	21
22	Add lines 10 through 21. These are your adjustments to income . Enter here and on Form 1040 or 1040-SR, line 8a	22

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040 or 1040-SR) 2019

SCHEDULE 2
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Taxes

▶ **Attach to Form 1040 or 1040-SR.**

▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **02**

Name(s) shown on Form 1040 or 1040-SR

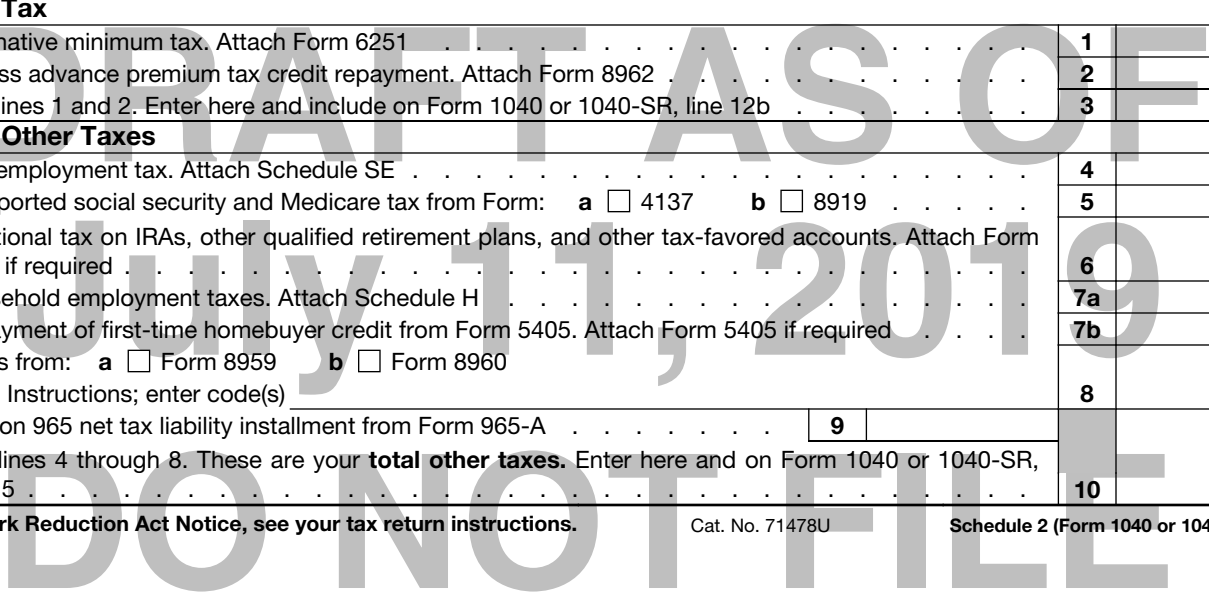
Your social security number

Part I Tax		
1	Alternative minimum tax. Attach Form 6251	1
2	Excess advance premium tax credit repayment. Attach Form 8962	2
3	Add lines 1 and 2. Enter here and include on Form 1040 or 1040-SR, line 12b	3
Part II Other Taxes		
4	Self-employment tax. Attach Schedule SE	4
5	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	5
6	Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required	6
7a	Household employment taxes. Attach Schedule H	7a
b	Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required	7b
8	Taxes from: a <input type="checkbox"/> Form 8959 b <input type="checkbox"/> Form 8960 c <input type="checkbox"/> Instructions; enter code(s)	8
9	Section 965 net tax liability installment from Form 965-A	9
10	Add lines 4 through 8. These are your total other taxes . Enter here and on Form 1040 or 1040-SR, line 15	10

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71478U

Schedule 2 (Form 1040 or 1040-SR) 2019



SCHEDULE 3
(Form 1040 or 1040-SR)

Department of the Treasury
Internal Revenue Service

Additional Credits and Payments

▶ **Attach to Form 1040 or 1040-SR.**
▶ **Go to www.irs.gov/Form1040 for instructions and the latest information.**

OMB No. 1545-0074

2019
Attachment
Sequence No. **03**

Name(s) shown on Form 1040 or 1040-SR

Your social security number

Part I Nonrefundable Credits

1	Foreign tax credit. Attach Form 1116 if required	1
2	Credit for child and dependent care expenses. Attach Form 2441	2
3	Education credits from Form 8863, line 19	3
4	Retirement savings contributions credit. Attach Form 8880	4
5	Residential energy credit. Attach Form 5695	5
6	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	6
7	Add lines 1 through 6. Enter here and include on Form 1040 or 1040-SR, line 13b	7

Part II Other Payments and Refundable Credits

8	2019 estimated tax payments and amount applied from 2018 return	8
9	Net premium tax credit. Attach Form 8962	9
10	Amount paid with request for extension to file (see instructions)	10
11	Excess social security and tier 1 RRTA tax withheld	11
12	Credit for federal tax on fuels. Attach Form 4136	12
13	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> Reserved c <input type="checkbox"/> 8885 d <input type="checkbox"/>	13
14	Add lines 8 through 13. Enter here and on Form 1040 or 1040-SR, line 18d	14

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71480G

Schedule 3 (Form 1040 or 1040-SR) 2019

Form **8867**

Paid Preparer's Due Diligence Checklist

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

Earned Income Credit (EIC), American Opportunity Tax Credit (AOTC), Child Tax Credit (CTC) (including the Additional Child Tax Credit (ACTC) and Credit for Other Dependents (ODC)), and Head of Household (HOH) Filing Status

**▶ To be completed by preparer and filed with Form 1040, 1040-SR, 1040-NR, 1040-PR, or 1040-SS.
▶ Go to www.irs.gov/Form8867 for instructions and the latest information.**

2019

Attachment
Sequence No. **70**

Taxpayer name(s) shown on return

Taxpayer identification number

Enter preparer's name and PTIN

Part I Due Diligence Requirements

Please check the appropriate box for the credit(s) and/or HOH filing status claimed on the return and complete the related Parts I–V for the benefit(s) claimed (check all that apply). EIC CTC/ACTC/ODC AOTC HOH

	Yes	No	N/A
1 Did you complete the return based on information for tax year 2019 provided by the taxpayer or reasonably obtained by you?	<input type="checkbox"/>	<input type="checkbox"/>	
2 If credits are claimed on the return, did you complete the applicable EIC and/or CTC/ACTC/ODC worksheets found in the Form 1040, 1040-SR, 1040-NR, 1040-PR, or 1040-SS instructions, and/or the AOTC worksheet found in the Form 8863 instructions, or your own worksheet(s) that provides the same information, and all related forms and schedules for each credit claimed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Did you satisfy the knowledge requirement? To meet the knowledge requirement, you must do both of the following. <ul style="list-style-type: none"> • Interview the taxpayer, ask questions, and contemporaneously document the taxpayer's responses to determine that the taxpayer is eligible to claim the credit(s) and/or HOH filing status. • Review information to determine that the taxpayer is eligible to claim the credit(s) and/or HOH filing status and to compute the amount(s) of any credit(s) 	<input type="checkbox"/>	<input type="checkbox"/>	
4 Did any information provided by the taxpayer or a third party for use in preparing the return, or information reasonably known to you, appear to be incorrect, incomplete, or inconsistent? (If "Yes," answer questions 4a and 4b. If "No," go to question 5.)	<input type="checkbox"/>	<input type="checkbox"/>	
a Did you make reasonable inquiries to determine the correct, complete, and consistent information?	<input type="checkbox"/>	<input type="checkbox"/>	
b Did you contemporaneously document your inquiries? (Documentation should include the questions you asked, whom you asked, when you asked, the information that was provided, and the impact the information had on your preparation of the return.)	<input type="checkbox"/>	<input type="checkbox"/>	
5 Did you satisfy the record retention requirement? To meet the record retention requirement, you must keep a copy of your documentation referenced in 4b, a copy of this Form 8867, a copy of any applicable worksheet(s), a record of how, when, and from whom the information used to prepare Form 8867 and any applicable worksheet(s) was obtained, and a copy of any document(s) provided by the taxpayer that you relied on to determine eligibility for the credit(s) and/or HOH filing status or to compute the amount(s) of the credit(s) List those documents, if any, that you relied on. _____ _____ _____	<input type="checkbox"/>	<input type="checkbox"/>	
6 Did you ask the taxpayer whether he/she could provide documentation to substantiate eligibility for the credit(s) and/or HOH filing status and the amount(s) of any credit(s) claimed on the return if his/her return is selected for audit?	<input type="checkbox"/>	<input type="checkbox"/>	
7 Did you ask the taxpayer if any of these credits were disallowed or reduced in a previous year? (If credits were disallowed or reduced, go to question 7a; if not, go to question 8.)	<input type="checkbox"/>	<input type="checkbox"/>	
a Did you complete the required recertification Form 8862?	<input type="checkbox"/>	<input type="checkbox"/>	
8 If the taxpayer is reporting self-employment income, did you ask questions to prepare a complete and correct Schedule C (Form 1040 or 1040-SR)?	<input type="checkbox"/>	<input type="checkbox"/>	

For Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 26142H

Form **8867** (2019)

Part II Due Diligence Questions for Returns Claiming EIC (If the return does not claim EIC, go to Part III.)			
	Yes	No	N/A
9a Have you determined that the taxpayer is, in fact, eligible to claim the EIC for the number of qualifying children claimed, or is eligible to claim the EIC without a qualifying child? (Skip 9b and 9c if the taxpayer is claiming the EIC and does not have a qualifying child.)			
b Did you ask the taxpayer if the child lived with the taxpayer for over half of the year, even if the taxpayer has supported the child the entire year?			
c Did you explain to the taxpayer the rules about claiming the EIC when a child is the qualifying child of more than one person (tiebreaker rules)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Part III Due Diligence Questions for Returns Claiming CTC/ACTC/ODC (If the return does not claim CTC, ACTC, or ODC, go to Part IV.)			
	Yes	No	N/A
10 Have you determined that each qualifying person for the CTC/ACTC/ODC is the taxpayer's dependent who is a citizen, national, or resident of the United States?	<input type="checkbox"/>	<input type="checkbox"/>	
11 Did you explain to the taxpayer that he/she may not claim the CTC/ACTC if the taxpayer has not lived with the child for over half of the year, even if the taxpayer has supported the child, unless the child's custodial parent has released a claim to exemption for the child?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 Did you explain to the taxpayer the rules about claiming the CTC/ACTC/ODC for a child of divorced or separated parents (or parents who live apart), including any requirement to attach a Form 8332 or similar statement to the return?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Part IV Due Diligence Questions for Returns Claiming AOTC (If the return does not claim AOTC, go to Part V.)		
	Yes	No
13 Did the taxpayer provide substantiation for the credit, such as a Form 1098-T and/or receipts for the qualified tuition and related expenses for the claimed AOTC?	<input type="checkbox"/>	<input type="checkbox"/>

Part V Due Diligence Questions for Claiming HOH (If the return does not claim HOH filing status, go to Part VI.)		
	Yes	No
14 Have you determined that the taxpayer was unmarried or considered unmarried on the last day of the tax year and provided more than half of the cost of keeping up a home for the year for a qualifying person?	<input type="checkbox"/>	<input type="checkbox"/>

Part VI Eligibility Certification		
<p>▶ You will have complied with all due diligence requirements for claiming the applicable credit(s) and/or HOH filing status on the return of the taxpayer identified above if you:</p> <p>A. Interview the taxpayer, ask adequate questions, contemporaneously document the taxpayer's responses on the return or in your notes, review adequate information to determine if the taxpayer is eligible to claim the credit(s) and/or HOH filing status and to compute the amount(s) of the credit(s);</p> <p>B. Complete this Form 8867 truthfully and accurately and complete the actions described in this checklist for any applicable credit(s) claimed and HOH filing status, if claimed;</p> <p>C. Submit Form 8867 in the manner required; and</p> <p>D. Keep all five of the following records for 3 years from the latest of the dates specified in the Form 8867 instructions under <i>Document Retention</i>.</p> <ol style="list-style-type: none"> 1. A copy of this Form 8867. 2. The applicable worksheet(s) or your own worksheet(s) for any credit(s) claimed. 3. Copies of any documents provided by the taxpayer on which you relied to determine the taxpayer's eligibility for the credit(s) and/or HOH filing status and to compute the amount(s) of the credit(s). 4. A record of how, when, and from whom the information used to prepare this form and the applicable worksheet(s) was obtained. 5. A record of any additional information you relied upon, including questions you asked and the taxpayer's responses, to determine the taxpayer's eligibility for the credit(s) and/or HOH filing status and to compute the amount(s) of the credit(s). <p>▶ If you have not complied with all due diligence requirements, you may have to pay a \$530 penalty for each failure to comply related to a claim of an applicable credit or HOH filing status.</p>		
15 Do you certify that all of the answers on this Form 8867 are, to the best of your knowledge, true, correct, and complete?	<input type="checkbox"/>	<input type="checkbox"/>



04 | 17 | 19

IRS issues guidance relating to deferral of gains for investments in a qualified opportunity fund

IR-2019-75

WASHINGTON –The Internal Revenue Service today issued guidance providing additional details about investment in qualified opportunity zones.

The proposed regulations allow the deferral of all or part of a gain that is invested into a Qualified Opportunity Fund (QO Fund) that would otherwise be includible in income. The gain is deferred until the investment is sold or exchanged or Dec. 31, 2026, whichever is earlier. If the investment is held for at least 10 years, investors may be able to permanently exclude gain from the sale or exchange of an investment in a QO Fund.

Qualified opportunity zone business property is tangible property used in a trade or business of the QO Fund if the property was purchased after Dec. 31, 2017. The guidance permits tangible property acquired after Dec. 31, 2017, under a market rate lease to qualify as “qualified opportunity zone business property” if during substantially all of the holding period of the property, substantially all of the use of the property was in a qualified opportunity zone.

A key part of the newly released guidance clarifies the “substantially all” requirements for the holding period and use of the tangible business property:

- For use of the property, at least 70 percent of the property must be used in a qualified opportunity zone.
- For the holding period of the property, tangible property must be qualified opportunity zone business property for at least 90 percent of the QO Fund’s or qualified opportunity zone business’s holding period.
- The partnership or corporation must be a qualified opportunity zone business for at least 90 percent of the QO Fund’s holding period.

The guidance notes there are situations where deferred gains may become taxable if an investor transfers their interest in a QO Fund. For example, if the transfer is done by gift the deferred gain may become taxable. However, inheritance by a surviving spouse is not a taxable transfer, nor is a transfer, upon death, of an ownership interest in a QO Fund to an estate or a revocable trust that becomes irrevocable upon death.

The guidance is posted on IRS.gov. These regulations relate to the Tax Cuts and Jobs Act (TCJA), the tax reform legislation enacted in December 2017.

For information about other TCJA provisions, visit IRS.gov/taxreform.



IRS revises EIN application process; seeks to enhance security

IR-2019-58, March 27, 2019

WASHINGTON — As part of its ongoing security review, the Internal Revenue Service announced today that starting May 13 only individuals with tax identification numbers may request an Employer Identification Number (EIN) as the “responsible party” on the application.

An EIN is a nine-digit tax identification number assigned to sole proprietors, corporations, partnerships, estates, trusts, employee retirement plans and other entities for tax filing and reporting purposes.

The change will prohibit entities from using their own EINs to obtain additional EINs. The requirement will apply to both the paper [Form SS-4, Application for Employer Identification Number \(PDF\)](#), and [online EIN](#) application.

Individuals named as responsible party must have either a Social Security number (SSN) or an individual taxpayer identification number (ITIN). By making the announcement weeks in advance, entities and their representatives will have time to identify the proper responsible official and comply with the new policy.

The [Form SS-4 Instructions \(PDF\)](#) provide a detailed explanation of who should be the responsible party for various types of entities. Generally, the responsible party is the person who ultimately owns or controls the entity or who exercises ultimate effective control over the entity. In cases where more than one person meets that definition, the entity may decide which individual should be the responsible party.

Only governmental entities (federal, state, local and tribal) are exempt from the responsible party requirement as well as the military, including state national guards.

There is no change for tax professionals who may act as third-party designees for entities and complete the paper or online applications on behalf of clients.

The new requirement will provide greater security to the EIN process by requiring an individual to be the responsible party and improve transparency. If there are changes to the responsible party, the entity can change the responsible official designation by completing [Form 8822-B, Change of Address or Responsible Party](#). A Form 8822-B must be filed within 60 days of a change.

Page Last Reviewed or Updated: 28-Mar-2019



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IRS takes additional steps to protect taxpayer data; plans to end faxing and third-party mailings of certain tax transcripts

IR-2019-101

WASHINGTON — As part of its ongoing efforts to protect taxpayers from identity thieves, the Internal Revenue Service today announced it will stop its tax transcript faxing service in June and will amend the Form 4506 series to end third-party mailing of tax returns and transcripts in July.

Tax transcripts are summaries of tax return information. Transcripts have become increasingly vulnerable as criminals impersonate taxpayers or authorized third parties. Identity thieves use tax transcripts to file fraudulent returns for refunds that are difficult to detect because they mirror a legitimate tax return.

The halt to the faxing and third-party service this summer are two more steps the IRS is taking to protect taxpayer data. In September 2018, the IRS began to mask personally identifiable information for every individual and entity listed on the transcript. See [New Tax Transcript and Customer File Number](#). At that time, the IRS announced it intended to stop its faxing and third-party mailing service, and has since worked with tax professionals to assure they have what they need for tax preparation and representation.

Faxing service ends June 28

Starting June 28, 2019, the IRS will stop faxing tax transcripts to both taxpayers and third parties, including tax professionals. This action affects individual and business transcripts.

Individual taxpayers have several options to obtain a tax transcript. They may:

- Use IRS.gov or the IRS2Go app to access [Get Transcript Online](#); after verifying their identities, taxpayers may immediately download or print their transcript, or
- Use IRS.gov or the IRS2Go app to access [Get Transcript by Mail](#); transcript will be delivered within 10 days to the address of record, or
- Call 800-908-9946 for an automated Get Transcript by Mail feature, or
- Submit Form 4506-T or 4506T-EZ to have a transcript mailed to the address of record.

Tax professionals also have several options to obtain tax transcripts necessary for tax preparation or representation as follows:

- Request that the IRS mail a transcript to the taxpayer's address of record, or
- Use e-Services' Transcript Delivery System online to obtain masked individual transcripts and business transcripts, or
- Obtain a masked individual transcript or a business transcript by calling the IRS, faxing authorization to the IRS assistor and the IRS assistor will place the document in the tax practitioner's e-Services secure mailbox.
- When needed for tax preparation purposes, tax practitioners may:
 - Obtain an unmasked wage and income transcript by calling the IRS, faxing authorization to the IRS assistor and the IRS assistor will place the document in the tax practitioner's e-Services secure mailbox, or
 - Obtain an unmasked wage and income transcript if authorization is already on file by using e-Service's Transcript Delivery System.

Certain third-party mailings stop July 1

Effective July 1, 2019, the IRS will no longer provide transcripts requested on Form 4506, Form 4506-T and Form 4506T-EZ to third parties, and the forms will be amended to remove the option for mailing to a third-party. These forms are often used by lenders and others to verify income for non-tax purposes. Among the largest users are colleges and universities verifying income for financial aid purposes. Tax professionals also are large volume users.

Taxpayers may continue to use these forms to obtain a copy of their tax return or obtain a copy of their tax transcripts. This change will NOT affect use of the IRS Data Retrieval Tool through the Free Application for Federal Student Aid (FAFSA) process.

Third parties who use these forms for income verification have other alternatives. The IRS offers an [Income Verification Express Service](#) (IVES) which has several hundred participants, who, with proper authorization, order transcripts. Lenders or higher education institutions can either contract with existing IVES participants or become IVES participants themselves. The tax transcript is an official IRS record. Taxpayers may choose to provide transcripts to requestors instead of authorizing the third party to request these transcripts from the IRS on their behalf.

Tax professionals who are attorneys, Certified Public Accountants or Enrolled Agents (i.e., Circular 230 practitioners) and do not have an [e-Services account](#) may create one and, with proper authorization from clients, can access the e-Services' Transcript Delivery System. Unenrolled tax practitioners must have an e-File application on file and be listed as delegated users to access TDS.

Customer File Number helps match transcripts

Because the taxpayer's name and Social Security number are now partially masked, the IRS also created a Customer File Number space that can be used to help third parties match transcripts to taxpayers. Third parties can assign a Customer File Number, such as a loan application number or a student identification number. The number will populate on the transcript and help match it to the client/student.

Learn more about the Customer File Number at [About the New Tax Transcript and the Customer File Number](#).

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Security Summit marks 4th National Tax Security Awareness Week

IRS announces new dates, social media effort and partner toolkit to highlight identity theft precautions

IR-2019-185

WASHINGTON – The Internal Revenue Service, state tax agencies and the nation’s tax industry today announced that the 4th Annual National Tax Security Awareness Week will take place between Dec. 2 and Dec. 6.

Security Summit partners will once again urge taxpayers, businesses and tax professionals to enhance their online security as the holiday shopping season kicks off and identity thieves step up their efforts to steal personal and financial data.

“While people are shopping online, identity thieves are trying to shoplift their sensitive information. As the holiday season and tax season approach, everyone should remember to take basic steps to protect themselves,” said Chuck Rettig, IRS Commissioner. “The Security Summit has made progress in fighting back against tax-related identity theft, but we need people to watch out for common scams that can put their financial and tax data at risk.”

Tax Security Awareness Week will feature a week-long series of educational materials to help protect taxpayers and tax pros against identity theft. The effort will include a special social media effort on Twitter and Instagram with @IRSnews and #TaxSecurity, including a Twitter chat on Dec. 5. Summit partners plan a series of more than 25 events across the country in conjunction with Tax Security Awareness Week.

Also new is a special partner toolkit that features ready-to-use communication products that organizations and stakeholders can use to help raise awareness among clients, customers and employees. The toolkit offers information to share, including drop-in articles and email content for sharing and social media posts. It can be used both during the awareness week and during the 2020 filing season.

As part of the effort, the IRS and Summit partners created new YouTube videos on security steps for taxpayers. The videos can be viewed or downloaded at [Easy Steps to Protect Your Computer and Phone](#) and [Avoid Phishing Emails](#).

The IRS also updated [Publication 4524](#), Security Awareness for Taxpayers, which businesses can share with their employees and customers while tax professionals can share with clients.

December’s National Tax Security Awareness Week features five days of basic security guidance for those most at-risk: individual taxpayers, business taxpayers and tax professionals. Highlights include:

Day 1: Protect personal and financial information online

The IRS and Security Summit remind people to take these basic steps:

- Use security software for computers and mobile phones – and keep it updated.
- Protect personal information; don't hand it out to just anyone.
- Use strong and unique passwords for all accounts.
- Use two-factor authentication whenever possible.
- Shop only secure websites; Look for the "https" in web addresses; avoid shopping on unsecured and public wi-fi in places like shopping malls.
- Routinely back up files on computers and mobile phones.

Day 2: Learn to recognize phishing emails and phone scams

Know that email scams often:

- Pose as companies people know and trust, and
- Tell an urgent story to trick victims into opening link or attachment.

Watch out for scam phone calls, too. Remember:

- The IRS does not call demanding payment with threats of jail or lawsuit.
- The IRS does not demand payment via gift or debit cards. The IRS does not accept tax payments by iTunes cards.
- The IRS does not send unsolicited emails about refunds or payments, requesting either login credentials, Social Security numbers or other sensitive information.

Day 3 – Create strong passwords to protect online accounts

The password standards have changed. Here are some simple guidelines:

- Use long phrases combined with characters and numbers. For example:
SomethingOneCanRemember@30.
- Use a different password for each account; don't use an email address if that's an option and use a password manager.
- Use two-factor authentication whenever it's offered, for example on email accounts, financial accounts and social media accounts.

Day 4 – Recognize clues of identity theft

A business taxpayer may be an identity theft victim if:

- An e-filed return is rejected because a duplicate is already on file with the IRS.
- Routine extensions to file requests are rejected.
- An unexpected receipt of a tax transcript or an IRS notice is received.
- Failure to receive expected and routine correspondence from the IRS, which can be an indicator an identity thief has changed the address.

Day 5 – Tax professionals should review their safeguards

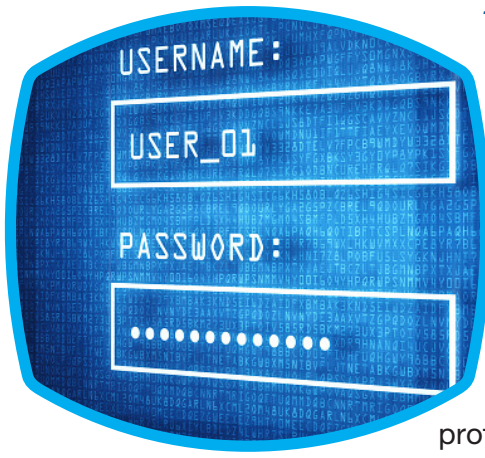
The IRS and the Summit partners urge tax pros to review the Taxes-Security-Together Checklist, including:

- Deploy basic security measures.
- Create a written data security plan as required by law.
- Know about phishing and phone scams.
- Recognize the signs of client data theft.
- Create a data theft recovery plan.



Protect Your Clients; Protect Yourself

Data Security Resource Guide for Tax Professionals



The Data Security Resource Guide for Tax Professionals is intended to provide a basic understanding of minimal steps to protect client data. All tax professionals are encouraged to work with cybersecurity professionals to ensure secure systems. Protecting taxpayer data from theft and disclosure is your responsibility.

Get Started

The Security Summit – the partnership between the Internal Revenue Service, state tax agencies and the tax industry – reminds all tax professionals that everyone has a role in protecting taxpayer data.

The Financial Services Modernization Act of 1999, also known as Gramm-Leach-Bliley Act, requires certain entities – including tax return preparers – to create and maintain a security plan for the protection of client data.

Here are two publications to help you get started:

- **IRS Publication 4557, Safeguarding Taxpayer Data**

This publication provides an overview of tax professionals' obligations to protect taxpayer information and provides a step-by-step checklist for how to create and maintain a security plan for your digital network and office.

- **NIST's Small Business Information Security – The Fundamentals**

The National Institute of Standards and Technology (NIST) is a branch of the U.S. Commerce Department. It sets the information security framework for federal agencies. It also produced this document to provide small businesses with an overview of those steps to security data. Its focus is on five principles: identify, protect, detect, respond and recover.

Don't forget **Publication 1345**, Handbook for Authorized IRS e-File Providers, which outlines your responsibility as an Electronic Return Originator, including in the area of e-File security and privacy.

What Can You Do?

- Learn to recognize phishing emails, especially those pretending to be from the IRS, e-Services, a tax software provider or cloud storage provider. Never open a link or any attachment from a suspicious email. Remember: The IRS never initiates initial email contact with tax pros about returns, refunds or requests for sensitive financial or password information.
- Create a data security plan using IRS **Publication 4557**, Safeguarding Taxpayer Data, and **Small Business Information Security – The Fundamentals**, by the National Institute of Standards and Technology.
- Review internal controls:
 - Install anti-malware/anti-virus security software on all devices (laptops, desktops, routers, tablets and phones) and keep software set to automatically update.

- Use strong and unique passwords of 8 or more mixed characters, password protect all wireless devices, use a phrase or words that are easily remembered and change passwords periodically.
- Encrypt all sensitive files/emails and use strong password protections.
- Back up sensitive data to a safe and secure external source not connected fulltime to a network.
- Make a final review of return information – especially direct deposit info - prior to e-filing.
- Wipe clean or destroy old computer hard drives and printers that contain sensitive data.
- Limit access to taxpayer data to individuals who need to know.
- Check IRS e-Services account weekly for number of returns filed with EFIN.
- Report any data thefts or losses to the appropriate [IRS Stakeholder Liaison](#).
- Stay connected to the IRS through subscriptions to [e-News for Tax Professionals](#), [QuickAlerts](#) and [Social Media](#).

Learn the Signs of Data Theft

You or your firm may be a victim and not even know it. Here are some common clues to data theft:

- Client e-filed returns begin to reject because returns with their Social Security numbers were already filed;
- Clients who haven't filed tax returns begin to receive authentication letters (5071C, 4883C, 5747C) from the IRS;
- Clients who haven't filed tax returns receive refunds;
- Clients receive tax transcripts that they did not request;
- Clients who created an IRS online account receive an IRS notice that their account was accessed or IRS emails stating their account has been disabled; or, clients receive an IRS notice that an IRS online account was created in their names;
- The number of returns filed with tax practitioner's Electronic Filing Identification Number (EFIN) exceeds number of clients;
- Tax professionals or clients responding to emails that practitioner did not send;
- Network computers running slower than normal;
- Computer cursors moving or changing numbers without touching the keyboard;
- Network computers locking out tax practitioners.

Stay Vigilant

Stay ahead of the thieves by taking certain actions daily or weekly to ensure your clients and your business remain safe:

- Track your daily e-File acknowledgements. If there are more acknowledgements than returns you know you filed, dig deeper.



- Track your weekly EFIN usage. The number of returns filed with your Electronic Filing Identification Number (EFIN) is posted weekly. Go to your e-Services account, access your e-file application and check “EFIN Status.” If the numbers are off, contact the e-Help desk. Keep your EFIN application up-to-date with all phone, address or personnel changes.
- If you are a ‘Circular 230 practitioner’ or an ‘annual filing season program participant’ and you file 50 or more returns a year, you can check your PTIN account for a weekly report of returns filed with your Preparer Tax Identification Number (PTIN.) Access your PTIN account and select “View Returns Filed Per PTIN.” File Form 14157, Complaint: Tax Return Preparer, to report excessive using your PTIN or misuse of PTIN.
- If you have a Centralized Authorization File (CAF) Number, make sure you keep your authorizations up to date. Remove authorizations for taxpayers who are no longer your clients. See [Publication 947](#), Practice Before the IRS and Power of Attorney.
- Create your IRS online accounts using the two-factor Secure Access authentication, which helps prevent account takeovers. See [IRS.gov/secureaccess](https://www.irs.gov/secureaccess) to review necessary steps.

Data Lost or Stolen? Report It Quickly

Contact the IRS and law enforcement:

- [Internal Revenue Service](#), report client data theft to your local Stakeholder Liaison.
- [Federal Bureau of Investigation](#), your local office (if directed.)
- [Secret Service](#), your local office (if directed.)
- Local police – To file a police report on the data breach.

Contact states in which you prepare state returns:

- Email the Federation of Tax Administrators at StateAlert@taxadmin.org to get information on how to report victim information to the states.
- [State Attorneys General](#) for each state in which you prepare returns. Most states require that the attorney general be notified of data breaches.

Contact experts:

- Security expert – to determine the cause and scope of the breach, to stop the breach and to prevent further breaches from occurring.
- Insurance company – to report the breach and to check if your insurance policy covers data breach mitigation expenses.

For a complete checklist, see [Data Theft Information for Tax Professionals](#).



Stay Connected

The IRS attempts to alert tax professionals as quickly as possible when it learns of a new scam, which are especially common during the filing season. Sign up so you can stay up to date with the latest alerts and tax administration issues:

- **e-News for Tax Professionals** – A weekly digest of important tax news geared for tax practitioners
- **QuickAlerts** – An urgent messaging system regarding e-File for tax professionals who have e-Services accounts.
- **IRS social media** – The IRS uses several social media outlets to connect with tax pros and with taxpayers. You can follow us at:
 - [Twitter.com/IRStaxpros](https://twitter.com/IRStaxpros).
 - [Twitter.com/IRSnews](https://twitter.com/IRSnews).
 - [Facebook.com/IRStaxpros](https://facebook.com/IRStaxpros).



IRS Security Bookmarks:

- **Identity Protection: Prevention, Detection and Victim Assistance** – Main identity theft page
- **Data Theft Information for Tax Professionals** – How to report client data loss to the IRS
- **Protect Your Clients; Protect Yourself** – Awareness campaign and scam alerts for tax pros
- **Taxes. Security. Together.** – Awareness campaign for taxpayers
- **Identity Theft Information for Tax Professionals** – An overview
- **Report Phishing and Online Scams** – How to report IRS-related scams
- **How IRS Identity Theft Victim Assistance Works** – What clients can expect
- **Maintain, Monitor and Protect Your EFIN** – Protect your IRS-issued identification numbers
- **Secure Access** – How to authenticate your identity to access IRS online tools
- **Security Summit** – Track safeguards enacted by IRS, states and industry
- **Newsroom** – Stay in the know by subscribing to IRS News Releases
- **Stakeholder Liaisons Local Contact** – find your local contact to report data losses





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IRS reminds tax professionals of tasks to get ready for 2020

IR-2019-186

WASHINGTON – The IRS today reminded tax professionals to review their e-Services account to ensure all contact information is accurate and to add or remove users. Reviewing e-Services information is just one of the tasks tax pros should complete now to get ready for 2020.

Here's a to-do list for the rest of 2019:

Update e-Services information

E-Services offers a suite of tools to assist tax pros. These tools include the e-file application, the Transcript Delivery System (TDS) and a secure mailbox. New e-Services users must first register and verify their identities using [Secure Access](#) authentication.

Principals, principal consents or authorized responsible officials/delegated users must update the e-file application to ensure that all contact information is accurate. Individuals no longer associated with the firm must be removed from the application.

New delegated users must be added to the e-file application. Firms that will need to use the e-Services TDS should ensure the appropriate people are approved on the application to avoid any delays in accessing [client transcripts](#).

Firms opening new offices where electronic transmissions will occur also must submit new e-file applications. E-file providers should review [Publication 3112](#), IRS e-file Application and Participation, to determine additional actions they should take.

The IRS reminds tax pros that the Electronic Filing Identification Number (EFIN) is not transferrable and cannot be sold, rented, leased, or provided with software purchased. It can only be obtained from the IRS. Providers who sell, transfer or close their business operations must notify the IRS within 30 days.

Renew PTINs

Anyone who prepares or helps prepare tax returns for compensation must have a [Preparer Tax Identification Number \(PTIN\)](#) and renew it each year. Tax preparers have until Dec. 31, 2019, to renew or register for PTINs for the 2020 filing season. Anyone who is an enrolled agent must also have a PTIN and renew it annually.

Update power of attorney/third-party authorization records

Tax pros who have existing power of attorney or third-party authorization (Forms 2848 and 8821) for clients should review those records. If the taxpayer is no longer a client, tax professionals should submit revocations to end the authorization. They can follow the revocation instructions outlined in [Publication 947](#), Practice Before the IRS and Power of Attorney. This will help safeguard taxpayer records.

Review security safeguards

All paid tax preparers, regardless of firm size, must have written information security plans as required by the Federal Trade Commission. IRS [Publication 4557](#), Safeguarding Taxpayer Data, offers an overview of basic security measures and information about the FTC's Safeguards Rule.

Now also is a good time for tax professionals to hire a cybersecurity expert to review office digital safeguards. At a minimum, tax pros should perform a "deep scan" for viruses on all digital devices. Other security tips are available at [Taxes-Security-Together Checklist](#). Tax pros should protect both their PTIN and EFIN from theft.

Review Practitioner Priority Service options

The Practitioner Priority Service (PPS) is any tax pro's first point of contact for account-related issues. Before calling, they should be sure to review the [PPS page](#). Faster solutions are often available on [IRS.gov](#). The quickest way to obtain a client's transcripts is by using [IRS e-Services](#) and the Transcript Delivery System. After registering for e-Services, tax pros can receive account transcripts, wage and income documents, tax return transcripts, and verification of non-filing letters online.

Tax pros must verify their identity before PPS representatives can provide help. This process includes providing their Social Security number and date of birth. If a tax pro has a client in the room, they should consider having them step out or, alternatively, ask the client to make an [oral disclosure authorization or oral tax information](#) authorization to the IRS representative.

Identify the local Stakeholder Liaison

The IRS has specialists nationwide who can help tax pros who suffer a security breach that effects their clients. When a data theft occurs, contact the local IRS [Stakeholder Liaison](#) immediately.

Register for e-News for Tax Professionals and subscribe for quick alerts

The IRS offers multiple registration-based list-services to assist tax professionals. For a weekly roundup of news releases and guidance, register for [e-News for Tax Professionals](#) or other [IRS subscriptions](#). There also are [social media platforms](#) just for tax professionals. Subscribe for [quick alerts](#) to keep up to date on events that affect authorized IRS e-file providers, transmitters and software developers.



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IRS provides tax inflation adjustments for tax year 2020

IR-2019-180

WASHINGTON — The Internal Revenue Service today announced the tax year 2020 annual inflation adjustments for more than 60 tax provisions, including the tax rate schedules and other tax changes. [Revenue Procedure 2019-44](#) provides details about these annual adjustments.

The tax law change covered in the revenue procedure was added by the Taxpayer First Act of 2019, which increased the failure to file penalty to \$330 for returns due after the end of 2019. The new penalty will be adjusted for inflation beginning with tax year 2021.

The tax year 2020 adjustments generally are used on tax returns filed in 2021.

The tax items for tax year 2020 of greatest interest to most taxpayers include the following dollar amounts:

- The standard deduction for married filing jointly rises to \$24,800 for tax year 2020, up \$400 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,400 in for 2020, up \$200, and for heads of households, the standard deduction will be \$18,650 for tax year 2020, up \$300.
- The personal exemption for tax year 2020 remains at 0, as it was for 2019, this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act.
- **Marginal Rates:** For tax year 2019, the top tax rate remains 37% for individual single taxpayers with incomes greater than \$518,400 (\$622,050 for married couples filing jointly). The other rates are:
35%, for incomes over \$207,350 (\$414,700 for married couples filing jointly);
32% for incomes over \$163,300 (\$326,600 for married couples filing jointly);
24% for incomes over \$85,525 (\$171,050 for married couples filing jointly);
22% for incomes over \$40,125 (\$80,250 for married couples filing jointly);
12% for incomes over \$9,875 (\$19,750 for married couples filing jointly).
The lowest rate is 10% for incomes of single individuals with incomes of \$9,875 or less (\$19,750 for married couples filing jointly).
- For 2020, as in 2019 and 2018, there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act.

- The Alternative Minimum Tax exemption amount for tax year 2020 is \$72,900 and begins to phase out at \$518,400 (\$113,400 for married couples filing jointly for whom the exemption begins to phase out at \$1,036,800). The 2019 exemption amount was \$71,700 and began to phase out at \$510,300 (\$111,700, for married couples filing jointly for whom the exemption began to phase out at \$1,020,600).
- The tax year 2020 maximum Earned Income Credit amount is \$6,660 for qualifying taxpayers who have three or more qualifying children, up from a total of \$6,557 for tax year 2019. The revenue procedure contains a table providing maximum credit amounts for other categories, income thresholds and phase-outs.
- For tax year 2020, the monthly limitation for the qualified transportation fringe benefit is \$270, as is the monthly limitation for qualified parking, up from \$265 for tax year 2019.
- For the taxable years beginning in 2020, the dollar limitation for employee salary reductions for contributions to health flexible spending arrangements is \$2,750, up \$50 from the limit for 2019.
- For tax year 2020, participants who have self-only coverage in a Medical Savings Account, the plan must have an annual deductible that is not less than \$2,350, the same as for tax year 2019; but not more than \$3,550, an increase of \$50 from tax year 2019. For self-only coverage, the maximum out-of-pocket expense amount is \$4,750, up \$100 from 2019. For tax year 2020, participants with family coverage, the floor for the annual deductible is \$4,750, up from \$4,650 in 2019; however, the deductible cannot be more than \$7,100, up \$100 from the limit for tax year 2019. For family coverage, the out-of-pocket expense limit is \$8,650 for tax year 2020, an increase of \$100 from tax year 2019.
- For tax year 2020, the adjusted gross income amount used by joint filers to determine the reduction in the Lifetime Learning Credit is \$118,000, up from \$116,000 for tax year 2019.
- For tax year 2020, the foreign earned income exclusion is \$107,600 up from \$105,900 for tax year 2019.
- Estates of decedents who die during 2020 have a basic exclusion amount of \$11,580,000, up from a total of \$11,400,000 for estates of decedents who died in 2019.
- The annual exclusion for gifts is \$15,000 for calendar year 2020, as it was for calendar year 2019.
- The maximum credit allowed for adoptions for tax year 2020 is the amount of qualified adoption expenses up to \$14,300, up from \$14,080 for 2019.



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401(k) contribution limit increases to \$19,500 for 2020; catch-up limit rises to \$6,500

IR-2019-179

WASHINGTON — The Internal Revenue Service today announced that employees in 401(k) plans will be able to contribute up to \$19,500 next year.

The IRS announced this and other changes in [Notice 2019-59](#), posted today on IRS.gov. This guidance provides cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2020.

Highlights of changes for 2020

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from \$19,000 to \$19,500.

The catch-up contribution limit for employees aged 50 and over who participate in these plans is increased from \$6,000 to \$6,500.

The limitation regarding SIMPLE retirement accounts for 2020 is increased to \$13,500, up from \$13,000 for 2019.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs and to claim the Saver's Credit all increased for 2020.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or his or her spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor his or her spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.) Here are the phase-out ranges for 2020:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is \$65,000 to \$75,000, up from \$64,000 to \$74,000.
- For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is \$104,000 to \$124,000, up from \$103,000 to \$123,000.

- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$196,000 and \$206,000, up from \$193,000 and \$203,000.
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is \$124,000 to \$139,000 for singles and heads of household, up from \$122,000 to \$137,000. For married couples filing jointly, the income phase-out range is \$196,000 to \$206,000, up from \$193,000 to \$203,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The income limit for the Saver's Credit (also known as the Retirement Savings Contributions Credit) for low- and moderate-income workers is \$65,000 for married couples filing jointly, up from \$64,000; \$48,750 for heads of household, up from \$48,000; and \$32,500 for singles and married individuals filing separately, up from \$32,000.

Key limit remains unchanged

The limit on annual contributions to an IRA remains unchanged at \$6,000. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.

Details on these and other retirement-related cost-of-living adjustments for 2020 are in [Notice 2019-59](#), available on IRS.gov.



11 | 14 | 19

IRS updates guidance for deductible business, charitable, medical and moving expenses

IR-2019-183

WASHINGTON — The Internal Revenue Service today issued guidance for taxpayers with certain deductible expenses to reflect changes resulting from the Tax Cuts and Jobs Act (TCJA).

Revenue Procedure [2019-46](#), posted today on IRS.gov, updates the rules for using the optional standard mileage rates in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

The guidance also provides rules to substantiate the amount of an employee's ordinary and necessary travel expenses reimbursed by an employer using the optional standard mileage rates. Taxpayers are not required to use a method described in this revenue procedure and may instead substantiate actual allowable expenses provided they maintain adequate records.

The TCJA suspended the miscellaneous itemized deduction for most employees with unreimbursed business expenses, including the costs of operating an automobile for business purposes. However, self-employed individuals and certain employees, such as Armed Forces reservists, qualifying state or local government officials, educators and performing artists, may continue to deduct unreimbursed business expenses during the suspension.

The TCJA also suspended the deduction for moving expenses. However, this suspension does not apply to a member of the Armed Forces on active duty who moves pursuant to a military order and incident to a permanent change of station.



10 | 09 | 19

Virtual currency: IRS issues additional guidance on tax treatment and reminds taxpayers of reporting obligations

IR-2019-167

WASHINGTON — As part of a wider effort to assist taxpayers and to enforce the tax laws in a rapidly changing area, the Internal Revenue Service today issued two new pieces of guidance for taxpayers who engage in transactions involving virtual currency.

Expanding on guidance from 2014, the IRS is issuing additional detailed guidance to help taxpayers better understand their reporting obligations for specific transactions involving virtual currency. The new guidance includes [Revenue Ruling 2019-24](#) and [frequently asked questions](#) (FAQs).

The new revenue ruling addresses common questions by taxpayers and tax practitioners regarding the tax treatment of a cryptocurrency hard fork. In addition, a set of FAQs address virtual currency transactions for those who hold virtual currency as a capital asset.

“The IRS is committed to helping taxpayers understand their tax obligations in this emerging area,” said IRS Commissioner Chuck Rettig. “The new guidance will help taxpayers and tax professionals better understand how longstanding tax principles apply in this rapidly changing environment. We want to help taxpayers understand the reporting requirements as well as take steps to ensure fair enforcement of the tax laws for those who don’t follow the rules.”

The new guidance supplements the guidance the IRS issued on virtual currency in [Notice 2014-21](#). The IRS is also soliciting public input on additional guidance in this area.

In Notice 2014-21, the IRS applied general principles of tax law to determine that virtual currency is property for federal tax purposes. The Notice explained, in the form of 16 FAQs, the application of general tax principles to the most common transactions involving virtual currency.

The IRS is aware that some taxpayers with virtual currency transactions may have failed to report income and pay the resulting tax or did not report their transactions properly. The IRS is actively addressing potential non-compliance in this area through a variety of efforts, ranging from taxpayer education to audits to criminal investigations.

For example, in July of this year the IRS announced that it began mailing educational letters to more than 10,000 taxpayers who may have reported transactions involving virtual currency incorrectly or not at all. Taxpayers who did not report transactions involving virtual currency or who reported them incorrectly may, when appropriate, be liable for tax, penalties and interest. In some cases, taxpayers could be subject to criminal prosecution.

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JOINT CHIEFS OF GLOBAL TAX ENFORCEMENT

J5 Countries Host Crypto ‘Challenge’ in Search of Tax Criminals

November 8, 2019 – LOS ANGELES

The Joint Chiefs of Global Tax Enforcement (J5) brought together investigators, cryptocurrency experts and data scientists in a coordinated push to track down individuals perpetrating tax crimes around the world this week.

The event, known as ‘The Challenge,’ was first hosted in 2018 by the Fiscal Intelligence and Investigation Service (FIOD) in Amsterdam and replicated this year in Los Angeles to identify those individuals who are the most egregious tax offenders in the world. The Challenge in Amsterdam focused on enablers of tax evasion while this version of the Challenge focused on cryptocurrency.

Experts from each country gathered with the mission of optimizing data from a variety of open and investigative sources available to each country, including offshore account information. Using various analytical tools, members of each country were put into teams and tasked with generating leads and finding tax offenders using cryptocurrency based on the new data available to them through the challenge. Real data sets from each country were brought to the challenge to make connections where current individual efforts would take years to make those same connections.

“The J5 is made up of the best and brightest of each of our countries so it makes sense to host events like the Challenge where we can get together, cut through red tape, and make real investigative strides,” said Don Fort, Chief, IRS Criminal Investigation. “This is not an exercise dealing with hypothetical scenarios. These are real investigators, using real data, finding real criminals through leads generated this week.”

At the conclusion of ‘The Challenge,’ each country had developed numerous leads, trends, methodologies and investigations touching all of the J5 countries. This information will be used to further current and future investigations under the J5 umbrella.

Cybercrime and the threat of cryptocurrencies to tax administration is one of the main focus areas of the J5. The organization seeks to make the best use of internationally available data and technology in events like the Challenge.

As criminals continue to find new methods to commit tax fraud and launder illegal proceeds, the J5 is committed to evolving to keep pace with investigating these egregious financial crimes. Tax fraud is not a new crime, but the sophistication with which criminals commit tax fraud has significantly increased through cyber-related activities in recent years. Data breaches, intrusions, takeovers and compromises are the new tools that criminals use to commit tax crimes.

Leaders of tax enforcement authorities from Australia, Canada, the Netherlands, the United Kingdom and the United States established the joint operational alliance known as the J5 in mid-2018 to increase collaboration in the fight against international and transnational tax crime and money laundering. For more information about J5, please visit www.irs.gov/J5.



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IRS increases enforcement action on Syndicated Conservation Easements

IR-2019-182

WASHINGTON — The Internal Revenue Service announced today a significant increase in enforcement actions for syndicated conservation easement transactions, a priority compliance area for the agency.

Coordinated examinations are being conducted across the IRS in the Small Business and Self-Employed Division, Large Business and International Division and Tax Exempt and Government Entities Division. Separately, investigations have been initiated by the IRS' Criminal Investigation division. These audits and investigations cover billions of dollars of potentially inflated deductions as well as hundreds of partnerships and thousands of investors.

“We will not stop in our pursuit of everyone involved in the creation, marketing, promotion and wrongful acquisition of artificial, highly inflated deductions based on these aggressive transactions. Every available enforcement option will be considered, including civil penalties and, where appropriate, criminal investigations that could lead to a criminal prosecution,” said IRS Commissioner Chuck Rettig. “Our innovation labs are continually developing new, more extensive enforcement tools that employ advanced techniques. If you engaged in any questionable syndicated conservation easement transaction, you should immediately consult an independent, competent tax advisor to consider your best available options. It is always worthwhile to take advantage of various methods of getting back into compliance by correcting your tax returns before you hear from the IRS. Our continued use of ever-changing technologies would suggest that waiting is not a viable option for most taxpayers.”

In December 2016, the IRS issued [Notice 2017-10](#), which designated certain syndicated conservation easements as listed transactions. Specifically, the Notice listed transactions where investors in pass-through entities receive promotional material offering the possibility of a charitable contribution deduction worth at least two and half times their investment. In many transactions, the deduction taken is significantly higher than 250 percent of the investment. Syndicated conservation easements are included on the IRS's 2019 “Dirty Dozen” list of tax scams to avoid.

“Abusive syndicated conservation easement transactions undermine the public's trust in private land conservation and defraud the government of revenue,” Rettig said. “Putting an end to these abusive schemes is a high priority for the IRS.”

Taxpayers may avoid the imposition of penalties relating to improper contribution deductions if they fully remove the improper contribution and related tax benefits from their returns by timely filing a qualified amended return or timely administrative adjustment request.

The IRS's comprehensive compliance efforts are focused on the abusive syndicated conservation easement transactions described in Notice 2017-10, recognizing that there are many legitimate conservation easement transactions.

The IRS is fully committed to putting an end to abusive syndicated conservation easement transactions, and holding accountable the individuals and entities who promoted, assisted with or participated in these schemes. The IRS is committing significant examination and investigative resources to vigorously audit the entities and individuals involved in this scheme, including those who failed to properly disclose their participation as required. Additionally, the IRS is also litigating cases where necessary, with more than 80 currently docketed cases in the Tax Court.

In addition to grossly overstating the value of the easement that is purportedly donated to charity, these transactions often fail to comply with the basic requirements for claiming a charitable deduction for a donated easement. The IRS has prevailed in many cases involving these basic requirements and has now established a body of law that the IRS believes supports disallowance of the deduction in a significant number of pending conservation easement cases. Where it hasn't done so already, the IRS will soon be moving the Tax Court to invalidate the claimed deductions in all cases where the transactions fail to comply with the basic requirements, leaving only the final penalty amount to be determined.

In addition to auditing participants, the IRS is pursuing investigations of promoters, appraisers, tax return preparers and others. Further, the IRS is evaluating numerous referrals of practitioners to the IRS Office of Professional Responsibility. The IRS will develop and assert all appropriate penalties, including penalties for participants (40 percent accuracy-related penalty), appraisers (penalty for substantial and gross valuation misstatements attributable to incorrect appraisals), promoters, material advisors, and accommodating entities (penalty for promoting abusive tax shelters and penalty for aiding and abetting understatement of tax liability), as well as return preparers (penalty for understatement of taxpayer's liability by a tax return preparer).

In December 2018, the Department of Justice filed a complaint seeking to stop several individuals and an entity from organizing, promoting or selling allegedly abusive syndicated conservation easement transactions. The IRS continues to work with the Department of Justice in this area and reminds taxpayers that continued disclosure of syndicated conservation easement transactions is required under Notice 2017-10.



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Final Regulations on Charitable Contributions and State and Local Tax Credits

IR-2019-109

WASHINGTON — The U.S. Department of the Treasury and the Internal Revenue Service today issued final regulations that require taxpayers to reduce their charitable contribution deductions by the amount of any state or local tax credits they receive or expect to receive in return. In a notice also issued today, the IRS stated that taxpayers may treat payments they make in exchange for these credits as state or local tax payments. This allows some taxpayers to deduct certain of the payments as taxes.

[Treasury Decision 9864](#), available today in the Federal Register, finalizes [proposed regulations](#) published Aug. 27, 2018, that were designed to clarify the relationship between state and local tax credits and the federal tax rules for charitable contribution deductions. The Treasury Department and the IRS issued the Treasury Decision after carefully reviewing the more than 7,700 written comments received during the comment period and 25 comments made at the November 2018 public hearing. About 70 percent of the comments recommended adopting the proposed regulations without change.

The final regulations, which apply to contributions made after Aug. 27, 2018, and are effective on Aug. 12, 2019, largely adopt the rules in the proposed regulations. Under the final regulations, a taxpayer making payments to an entity eligible to receive tax-deductible contributions must reduce the federal charitable contribution deduction by the amount of any state or local tax credit that the taxpayer receives or expects to receive in return. The regulations also apply to payments made by trusts or decedents' estates in determining the amount of their charitable contribution deductions.

For example, if a state grants a 70 percent state tax credit pursuant to a state tax credit program, and an itemizing taxpayer contributes \$1,000 pursuant to that program, the taxpayer receives a \$700 state tax credit. A taxpayer who itemizes deductions must reduce the \$1,000 federal charitable contribution deduction by the \$700 state tax credit, leaving a federal charitable contribution deduction of \$300.

The regulations provide exceptions for dollar-for-dollar state tax deductions and for tax credits of no more than 15 percent of the amount transferred. Thus, a taxpayer who receives a state tax deduction of \$1,000 for a contribution of \$1,000 is not required to reduce the federal charitable contribution deduction to take into account the state tax deduction; and a taxpayer who makes a \$1,000 contribution is not required to reduce the \$1,000 federal charitable contribution deduction if the state or local tax credit received or expected to be received is no more than \$150.

The IRS also posted a notice ([Notice 2019-12](#)) providing a safe harbor that allows an individual who itemizes deductions to treat, in certain circumstances, payments that are or will be disallowed as charitable contribution deductions under the final regulations as state or local taxes for federal income tax purposes. Eligible taxpayers can use the safe harbor to determine their state and local tax (SALT) deduction on their tax-year 2018 return. Those who have already filed may be able to claim a greater SALT deduction by filing an amended return, [Form 1040X](#), if they have not already claimed the \$10,000 maximum amount (\$5,000 if married filing separately).

The Treasury Department and the IRS continue to consider issuing future guidance on a number of issues raised by commenters.

Updates on the implementation of the Tax Cuts and Jobs Act (TCJA) can be found on the [Tax Reform page](#) of IRS.gov.



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IRS: Eligible employees can use tax-free dollars for medical expenses

IR-2019-184

WASHINGTON — With health care open season now under way at many workplaces, the Internal Revenue Service today reminded workers they may be eligible to use tax-free dollars to pay medical expenses not covered by other health plans.

Eligible employees of companies that offer a health flexible spending arrangement (FSA) need to act before their medical plan year begins to take advantage of an FSA during 2020. Self-employed individuals are not eligible.

An employee who chooses to participate can contribute up to \$2,750 through payroll deductions during the 2020 plan year. Amounts contributed are not subject to federal income tax, Social Security tax or Medicare tax. If the plan allows, the employer may also contribute to an employee's FSA.

Throughout the year, employees can use FSA funds for qualified medical expenses not covered by their health plan. These can include co-pays, deductibles and a variety of medical products. Also covered are services ranging from dental and vision care to eyeglasses and hearing aids. Interested employees should check with their employer for details on eligible expenses and claim procedures.

Under the FSA use-or-lose provision, participating employees normally must incur eligible expenses by the end of the plan year or forfeit any unspent amounts. However, employers can, if they choose to, offer an option for participating employees to have more time to use FSA money.

- Under the *carryover option*, an employee can carry over up to \$500 of unused funds to the following plan year. For example, an employee with unspent funds at the end of 2019 would still have those funds available to use in 2020.
- Under the *grace period option*, an employee has until two and a half months after the end of the plan year to incur eligible expenses. For example, March 15, 2020, for a plan year ending on Dec. 31, 2019.
- Employers can offer either option (not both) or no option.

Employers are not required to offer FSAs. Interested employees should check with their employer to see if they offer an FSA. More information about FSAs can be found at IRS.gov in [Publication 969](#), Health Savings Accounts and Other Tax-Favored Health Plans.



09 | 26 | 19

IRS releases new Tax Gap estimates; compliance rates remain substantially unchanged from prior study

IR-2019-159

WASHINGTON — The Internal Revenue Service today released a new set of tax gap estimates on tax years 2011, 2012 and 2013. The results show the nation's tax compliance rate is substantially unchanged from prior years.

The gross tax gap is the difference between true tax liability for a given period and the amount of tax that is paid on time.

"Voluntary compliance is the bedrock of our tax system, and it's important it is holding steady," said IRS Commissioner Chuck Rettig. "Tax gap estimates help policy makers and the IRS in identifying where noncompliance is most prevalent. The results also underscore that both solid taxpayer service and effective enforcement are needed for the best possible tax administration."

The average gross tax gap was estimated at \$441 billion per year based on data from tax years 2011, 2012 and 2013. After late payments and enforcement efforts were factored in, the net tax gap was estimated at \$381 billion.

The tax gap estimates translate to about 83.6%, of taxes paid voluntarily and on time, which is in line with recent levels. The new estimate is essentially unchanged from a revised Tax Year 2008-2010 estimate of 83.8%. After enforcement efforts are taken into account, the estimated share of taxes eventually paid is 85.8% for both periods. And it is line with the TY 2001 estimate of 83.7% and the TY 2006 estimate of 82.3%.

The IRS will continue to vigorously pursue those that are not compliant. The IRS currently collects more than \$3 trillion annually in taxes, penalties, interest and user fees.

The voluntary compliance rate of the U.S. tax system is vitally important for our nation. A one-percentage-point increase in voluntary compliance would bring in about \$30 billion in additional tax receipts.

Tax Gap studies through the years have consistently demonstrated that third-party reporting significantly raises voluntary compliance. And compliance rises even higher when income payments are also subject to withholding. The IRS also has an array of other programs aimed at supporting accurate tax filing and helping address the tax gap. These range from working with businesses and partner groups to a variety of education and outreach efforts.

The tax gap estimates are a helpful guide to the historical scale of tax compliance and to the persisting sources of low compliance.

“Maintaining the highest possible voluntary compliance rate also helps ensure that taxpayers believe our system is fair,” Rettig said. “The vast majority of taxpayers strive to pay what they owe on time. Those who do not pay their fair share ultimately shift the tax burden to those people who properly meet their tax obligations. The IRS will continue to direct our resources to help educate taxpayers about the tax requirements under the law while also focusing on pursuing those who skirt their responsibilities.”



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Understanding the latest Tax Gap estimates and overall taxpayer compliance

FS-2019-11, September 2019

The Internal Revenue Service periodically estimates the tax gap to gauge historical overall compliance of all types of taxpayers with their federal tax obligations. The estimates take into account federal taxes due as well as refundable and non-refundable tax credits.

In general, the tax gap estimates dating back decades consistently show the United States enjoys a relatively high and stable voluntary tax compliance rate. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the nation billions of dollars in lost revenue and shift the tax burden away from those who don't pay their taxes onto those who pay their fair share on time every year. Understanding the elements of the tax gap enables policymakers and tax administrators to make better decisions regarding how to allocate resources used to administer the tax code. All initiatives by the IRS to improve tax collection are intended to narrow the tax gap and increase compliance. The estimates also inform policymakers of potential areas that need to be addressed in other ways.

Tax gap components

The tax gap is comprised of three main components: non-filing, underreporting and underpayment:

- The non-filing tax gap is the tax not paid on time by those who do not file the required returns on time.
- The underreporting tax gap is the net understatement of tax on timely filed returns.
- The underpayment tax gap is the amount of tax reported on timely filed returns that is not paid on time.

The tax gap is also categorized by five types of tax, including individual income tax, corporate income tax, employment taxes (Social Security and federal unemployment insurance - also known as payroll taxes), estate tax and excise tax.

The latest tax gap estimates

The gross average tax gap was estimated at \$441 billion per year, based on data from tax years 2011, 2012 and 2013. This does not reflect subsequent payments either voluntarily or through IRS administrative and enforcement efforts. Those payments were estimated at \$60 billion, resulting in a net tax gap estimate of \$381 billion.

The tax gap estimates translate to about 83.6%, of taxes paid voluntarily and on time, which is in line with recent levels. The new estimate is essentially unchanged from a revised Tax Year 2008-2010 estimate of 83.8%. After enforcement efforts are taken into account, the estimated share of taxes eventually paid is 85.8% for both periods. And it is in line with the TY 2001 estimate of 83.7% and the TY 2006 estimate of 82.3%.

The voluntary compliance rate is defined as “tax paid voluntarily and timely” divided by the “total true tax” and expressed as a percentage. The latest tax gap estimate translates to a voluntary compliance rate of 83.6%. After enforcement and late payments are taken into account, the net compliance rate is 85.8%.

Looking at the components, the non-filing tax gap was estimated at \$39 billion, the underreporting tax gap was \$352 billion and the underpayment tax gap was \$50 billion. And by the various types of taxes, the estimated gross tax gap for individual income tax was estimated at \$314 billion, the tax gap for corporate income tax was \$42 billion, the tax gap for employment tax \$81 billion, and the tax gap for estate and excise tax combined was \$3 billion.

Tax gap studies through the years have consistently demonstrated that third-party reporting significantly raises voluntary compliance. And compliance rises even higher when income payments are also subject to withholding. The IRS also has an array of other programs aimed at supporting accurate tax filing and helping address the tax gap. These range from working with businesses and partner groups to a variety of education and outreach efforts.



11 | 22 | 2019

Final regulations confirm: Making large gifts now won't harm estates after 2025

IR-2019-189

WASHINGTON – The Treasury Department and the Internal Revenue Service today issued [final regulations](#) confirming that individuals taking advantage of the increased gift and estate tax exclusion amounts in effect from 2018 to 2025 will not be adversely impacted after 2025 when the exclusion amount is scheduled to drop to pre-2018 levels.

[Treasury Decision 9884](#), available today in the Federal Register, implements changes made by the Tax Cuts and Jobs Act (TCJA), the tax reform legislation enacted in December 2017. Though the final regulations largely adopt the [proposed regulations](#) published last November, they also include clarifying technical language addressing concerns raised in several public comments as well as four examples which, among other things, illustrate the impact of inflation adjustments. As a result, individuals planning to make large gifts between 2018 and 2025 can do so without concern that they will lose the tax benefit of the higher exclusion level once it decreases after 2025.

In general, gift and estate taxes are calculated, using a unified rate schedule, on taxable transfers of money, property and other assets. Any tax due is determined after applying a credit – formerly known as the unified credit – based on an applicable exclusion amount.

The applicable exclusion amount is the sum of the basic exclusion amount (BEA) established in the statute, and other elements, if applicable, described in the final regulations. The credit is first used during life to offset gift tax and any remaining credit is available to reduce or eliminate estate tax.

The TCJA temporarily increased the BEA from \$5 million to \$10 million for tax years 2018 through 2025, with both dollar amounts adjusted for inflation. For 2019, the inflation-adjusted BEA is \$11.4 million. In 2026, the BEA will revert to the 2017 level of \$5 million as adjusted for inflation.

To address concerns that an estate tax could apply to gifts exempt from gift tax by the increased BEA, the final regulations provide a special rule that allows the estate to compute its estate tax credit using the higher of the BEA applicable to gifts made during life or the BEA applicable on the date of death.

More information about this and other TCJA provisions can be found on the [Tax Reform](#) page on IRS.gov.

Third Party Authorization, Levels of Authority

Ogden Campus
Accounts Management
CAF Team
1973 No. Rulon White Blvd.
Mail Stop 6737
Ogden, UT 84404

Fax: (855) 214-7522

Memphis Campus
Accounts Management
CAF Team
5333 Getwell Road
Mail Stop 8423
Memphis, TN 38118

Fax: (855) 214-7519

Philadelphia Campus
Accounts Management
International CAF Team
2970 Market Street
Mail Stop 3-E08.123
Philadelphia, PA 19104

Within U.S. Fax: (855) 772-3156
Outside U.S. Fax: (267) 941-1017

Checkbox authority applies to Form 1040X, Amended U.S. Individual Income Tax Return, if filed within the one-year period following the original due date of the related Form 1040 (with no extensions).



THIRD PARTY AUTHORIZATIONS FOR RESOLVING A TAX ISSUE

There are various methods by which third parties may be granted authority to assist taxpayers in resolving tax issues. This chart identifies products available for addressing taxpayer needs and the means of submitting the authorization. These products all allow for the exchange of information with the IRS for purposes of resolving a tax issue, although the power of attorney is the only product that allows the third party to represent the taxpayer before the IRS.

(1) Features	(a) Power of Attorney (POA)	(b) (c) (d) Tax Information Authorization (TIA)			(e) (f) Limited Tax Information Authorization	
(2) Purpose	(a) Allows third party to represent taxpayer before the IRS	(b) (c) (d) (f) Allows a third party to receive or inspect written and/or oral tax account information, subject to product limitations				
(3) How is authority granted	(a) Form 2848 , Power of Attorney and Declaration of Representative, Form 706, US Estate Tax Return, or written equivalent	(b) Form 8821 , Tax Information Authorization, or written equivalent	(c) Oral Tax Information Authorization granted by taxpayer calling 1-800-829-1040 for Individuals or 1-800-829-4933 for Business Entities	(d) Third Party Designee or Checkbox Authorization is granted directly on tax return (Forms in 1040 and 94X series, Forms 720, 1041, 1120, 2290 and CT-1)	(e) Oral Disclosure Consent granted by taxpayer calling 1-800-829-1040, BMF Number 1-800-829-4933, providing the name of the designee for specific notice issue	(f) Form 8655 , Reporting Agent Authorization
(4) Who can exercise this authority	(a) Attorneys, CPAs, enrolled agents/actuaries, immediate family, full-time employees, general partners, officer, unenrolled return preparer (limited practice) and certain others	(b) Any individual or a business, e.g. legal, accounting, tax preparation firm. Authority extends to employees of a business appointee	(c) Any individual or a business, e.g. legal, accounting, tax preparation firm. Authority extends to employees of a business appointee	(d) Any individual or a business, e.g. legal, accounting, tax preparation firm. Authority extends to employees of a business appointee	(e) Any individual	(f) Companies (Reporting Agents, batch and bulk filers) approved under Revenue Procedure 2007-38 and 96-18. Authority extends to employees of agent
(5) Entitled to written and oral information	(a) Yes	(b) Yes	(c) Yes	(d) Yes	(e) No. Oral information only.	(f) Yes, but only on returns filed and payments made by the agent
(6) Can receive copies of notice and correspondence	(a) Yes. Taxpayer must check box on Line 2 of Form 2848 for representative to receive copies of systems' generated notices and correspondence.	(b) Yes. Taxpayer must check box for appointee to receive copies of systems' generated notices and correspondence.	(c) Yes, if the taxpayer makes known at time of establishing OTIA that the appointee should receive copies of notices and communications. Note: Unless the OTIA recorded on the CAF at the taxpayer's request, an appointee established through an OTIA will not receive copies of systems' generated notices and communications.	(d) No	(e) No	(f) Yes. If taxpayer checks the appropriate blocks on Form 8655
(7) Submission and processing time	(a) CAF receipts are processed first in first out (FIFO) within 5 business days.	(b) CAF receipts are processed first in first out (FIFO) within 5 business days.	(c) Submitted telephonically and recorded immediately on tax module. If OTIA is to be recorded on the CAF at the taxpayer's request, the OTIA is processed first in first out (FIFO) within 5 business days.	(d) Up to 3 weeks to record a designation made on an e-filed tax return on the tax module. Processing time is 4-6 for paper returns.	(e) Submitted telephonically and recorded immediately on tax module.	(f) Submitted by mail or fax. Processing time is 10 to 30 days.
(8) Where is record maintained and how it retrieved?	(a) Recorded on CAF. Available on Master File and IDRS CFINK	(b) Recorded on CAF. Available on Master File and IDRS CFINK	(c) Recorded on CAF. Available on Master File and IDRS CFINK	(d) Recorded on tax module Available on Master File IDRS TXMOD/IMFOLR and BMFOLR	(e) Recorded on tax module Available on Master File IDRS TXMOD	(f) Recorded on Reporting Agents File (RAF) Available on Master File IDRS RFINK
(9) Must have CAF/RAF number	(a) No. If CAF # not already established, one will be issued with first recorded submission	(b) No. If CAF # not already established, one will be issued with first recorded submission	(c) No. If CAF # not already established, one will be issued with first recorded submission	(d) No. Must have shared secret PIN, recorded directly on account	(e) No. Only name of authorized individual recorded directly on account	(f) No. Reported on RAF under RA's EIN.
(10) Expiration of authority	(a) Taxpayer revokes or representative withdraws. New POA supersedes existing POA unless otherwise specified on Form 2848, Line 6. May co-exist with a TIA	(b) Taxpayer revokes or appointee withdraws. New TIA supersedes existing TIA unless otherwise specified on Form 8821, Line 6. May co-exist with a POA	(c) Taxpayer revokes or appointee withdraws. New TIA supersedes existing TIA unless otherwise specified. May co-exist with a POA	(d) Checkbox authority will expire one year from the due date of the return regardless of any extension dates. Checkbox authority may co-exist with a POA	(e) Authority coincides with the resolution of the specific notice issue from which the authorization arose. May co-exist with a POA	(f) Taxpayer revokes or agent withdraws. New Form 8655 may coexist with existing Form 8655 but only for non-overlapping periods covered by authorization. May co-exist with a POA or TIA