Key Updates to the Section 199A Qualified Business Income (QBI) Deduction Under the OBBBA

By Vibha Kejriwal, CPA-Austin

Since its introduction by the *Tax Cuts and Jobs Act* (TCJA) in 2018, the Qualified Business Income (QBI) deduction has allowed owners of sole proprietorships, partnerships, S corporations, trusts and estates to deduct up to 20 percent of their qualified business income. Under the original TCJA rules, this deduction was set to expire after Dec. 31, 2025.

That has now changed. The recently passed *One Big Beautiful Bill Act* (OBBBA) has made the QBI deduction permanent starting in tax year 2025, giving long-term certainty and relief to pass-through business owners.

What Stays the Same
The basic calculation is not changing. The deduction remains the lesser of:

- 20 percent of QBI (plus 20 percent of qualified REIT dividends and Publicly Traded Partnership income), limited to the sum of 50 percent of wages plus 2 percent of the cost basis of real property, or
- 20 percent of taxable income (excluding net capital gain).

Expanded Income Limits
Under TCJA, the phase-in range for wage and property limits—and the disallowance of the deduction for specified service trades or businesses (SSTBs)—was set at $50,000 above the income threshold for single filers and $100,000 for joint filers. OBBBA increases those ranges to $75,000 and $150,000, respectively, with automatic inflation adjustments after 2026. This change opens the door for more taxpayers to benefit, including higher-income service business owners who previously phased out.

New Minimum Deduction Introduced
OBBBA adds a new provision. If a taxpayer's total QBI from all active qualified businesses is at least $1,000, they will now receive a minimum deduction of $400 (adjusted for inflation after 2026) or the regular calculated deduction—whichever is larger. This ensures even smaller businesses can take advantage of the deduction.

SSTB Rules Still Apply
Certain service businesses that are generally professional service businesses such as law, health and certain consulting are still subject to special limitations. However, those limits now come with higher phase-in ranges—giving more room for deduction before benefits begin to taper off. Architects and engineers remain excluded from the classification of SSTBs.