Davis Brown Tax Law Blog

Section 199A and Calculating and Reporting for Relevant Passthrough Entities, Publicly Traded Partnerships, Trusts, and Estates – August 27, 2018

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Last week, we provided a high-level overview on the application of Section 199A as it relates to estates, trusts, and beneficiaries. This post will cover the details of calculating and reporting the Section 199A deductions.

Section 199A and Proposed Regulation 1.199A-6 provide special rules for relevant passthrough entities (RPEs), publicly traded partnerships (PTPs), trusts, and estates in computing the Section 199A deductions. This post will discuss how these entities calculate and report certain information to their owners or beneficiaries.

Calculating and Reporting for Relevant Passthrough Entities

RPEs include partnerships (other than PTPs) and S corporations owned by at least one person, trust, or estate. A trust or estate is an RPE to the extent it passes through to its beneficiaries any of the following:

- qualified business income (QBI),
- unadjusted basis immediately after acquisition (UBIA) of qualified property,
- qualified real estate investment trust (REIT) dividends,
- qualified PTP income, and
- W-2 wages.

RPEs cannot take the Section 199A deduction at the RPE level. Instead, they must determine and report the information needed for their owners to determine their own Section 199A deduction, and report that information on or with Schedule K-1. The owners of the RPE may then be able to take the deduction.

In determining the amounts and information RPEs must report to their owners and the IRS, Section 199A follows the rules for individuals with taxable income above the $315,000 threshold (if married filing jointly; $157,500 for all other taxpayers).

Calculating and Reporting for Publicly Traded Partnerships

Unlike RPEs, PTPs are not required to determine or report W-2 wages or the UBIA of qualified property. However, PTPs must determine and report on or with Schedule K-1 all of the following:

- QBI for each trade or business in which they are engaged, and whether those trades or businesses are Specified Service Trades or Businesses (SSTBs),

- qualified REIT dividends, and
- qualified PTP income or loss from another PTP.

Calculating and Reporting for Trusts and Estates

Section 199A contains special rules for trusts and estates. As we discussed in an earlier blog post, grantor trusts calculate QBI as if the QBI had been received by the grantor.

Estates and non-grantor trusts must allocate the QBI between the trust or estate and its beneficiaries based on the proportion of the distributable net income (DNI). In general:

- A beneficiary's share of the QBI and W-2 wages is the portion of the trust's or estate's DNI deemed distributed to the beneficiary for a particular tax year.
- The trust's or estate's share of the QBI and W-2 wages is any DNI *not* deemed distributed to the beneficiaries for a particular tax year.
- If the trust or estate has no DNI in a given tax year, all QBI and W-2 wages are allocated to the trust or estate.

Section 199A-6 provides many planning opportunities for relevant passthrough entities and publicly traded partnerships, but also brings additional reporting requirements. If you have a RPE or PTP, or if you are administering a trust, speak with your lawyer about how the Section 199A-6 may affect you.

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