Tax Question

Student’s Name

Institution

Date

**Section 199A**

Section 199A is regarded as a section of the Tax Law, which allows individuals to the partnership, sole proprietorship, and corporation to apply a deduction of income for qualified business or business. It is regarded as a tax break, which allows individuals to submit only 20% in tax for the income a company makes during the financial period (Schreiber, Bonner, & Nevius, 2019). According to Schreiber, Bonner, and Nevius (2019), the IRS guideline illustrates that qualified taxable income is paid less 20%, which was supposed to be paid. And therefore, under the law, Drake would be required to pay 20% less of the tax, which was supposed to be paid.

| **Item** | **Amount** |
| --- | --- |
| Net Income from Operations (S Corp) |  $175,000 |
| Spouse's (Rebecca) Income (from the unrelated business) |  $50,000 |
| Corporate Payroll |  $150,000 |
| Corporate Total Assets |  $1,500,000 |
| Taxable Income from Form 1040 | $160,000 |
| **(Total Tax for Drake's after allowable deductions unrelated to the business)** | **2,035,000.00** |

In the case of Drake, the 20% tax break would be applied in any income, which is above 150,000 and also below 201,000 as stipulated by the law under section 199A. This means that the 20% would be applied on net income from the operation, Taxable Income from Form 1040, and Corporate Payroll of the company. The tax deduction of Drakes would, therefore, be reflected as indicated in the table below:

| **Item** | **Amount** |
| --- | --- |
| Net Income from Operations (S Corp) |  $140,000.00 |
| Spouse's (Rebecca) Income (from the unrelated business) |  $50,000.00 |
| Corporate Payroll |  $120,000.00 |
| Corporate Total Assets |  $1,500,000.00 |
| Taxable Income from Form 1040 | $128,000.00 |
| **(Total Tax for Drake's after allowable deductions unrelated to the business)** | **$1,938,000.00** |

It is, therefore, established that before applying a 20% tax break under section 199A, Drake would be required to pay $2,035,000.00, income tax to the IRS. However, after the application of a 20% tax break, which Drake is entitled to under section 199A, the company would be required to submit $1,938,000.00.

The best strategies to help Drake minimize the tax payable in the future would be to spread his fee to be within the limit required for the qualification of tax break under section 199A.