GUIDE

Form 8995 and the QBI deduction

Form 8995 is the simplified form for the qualified business income deduction, which lets owners of sole proprietorships, partnerships, S-Corps and many LLCs deduct up to 20% of their business income. You can use it if your taxable income is under about $201,750 single or $403,500 joint for 2026. Above that, you file Form 8995-A.

QUICK FACTS

- **Deduction.** Up to 20% of qualified business income, capped at 20% of taxable income less net capital gains
- **2026 limit.** Use Form 8995 below about $201,750 single and $403,500 married filing jointly
- **New minimum.** From 2026, at least $400 if you have $1,000 or more of QBI from a business you actively run

Who can use Form 8995?

Individuals, and some trusts and estates, with qualified business income from a pass-through business, whose taxable income before the deduction is at or below the threshold. For 2026 that's about $201,750 for most filers and $403,500 married filing jointly, using figures from the draft IRS instructions. Above it, or if you're a patron of an agricultural cooperative, you use Form 8995-A, which applies the wage and property limits.

What counts as qualified business income?

Net profit from a trade or business in the US: a sole proprietorship on Schedule C, your share of a partnership or S-Corp, and many rental activities that rise to the level of a business. It doesn't include:

- Wages, including an S-Corp owner's own salary
- Guaranteed payments to partners for services
- Investment income like capital gains, dividends and most interest

QBI is also reduced by the deductible part of self-employment tax, self-employed health insurance and retirement plan contributions tied to the business.

General information, not tax advice for your situation.

How is the deduction worked out?

Twenty percent of your total QBI, plus 20% of qualified REIT dividends and publicly traded partnership income. Then it's capped at 20% of your taxable income minus net capital gains. Example: $100,000 of QBI and $90,000 of taxable income gives $20,000 before the cap, but the cap is $18,000, so you deduct $18,000. Our QBI deduction explainer walks through more examples.

What changed for 2026?

The 2025 tax law made the deduction permanent, widened the phase-in range above the threshold to $75,000 ($150,000 joint), and added a minimum deduction of $400 for anyone with at least $1,000 of QBI from businesses they materially participate in. Both amounts adjust for inflation in later years. See our 2025 tax law changes guide.

What about losses?

If your businesses lose money overall, there's no deduction this year, and the net loss carries forward to reduce QBI next year. Form 8995 tracks it. Keep the carryforward figure with your records, especially if you change preparers.

Does it lower self-employment tax?

No. The deduction reduces income tax only, on your personal return. It doesn't reduce self-employment tax or the business's own income. That's one reason the S-Corp election is a separate decision, with its own trade-offs for QBI.

Common questions

Do I need to itemize to claim the QBI deduction?
No. You can take it with the standard deduction or with itemized deductions.

What is the difference between Form 8995 and 8995-A?
Form 8995 is the simple version for incomes under the threshold. Form 8995-A adds the W-2 wage, property and specified service business limits for higher incomes.

Can a C-Corp claim the QBI deduction?
No. It's only for income that passes through to individual owners.

Are consultants and lawyers excluded?
Below the threshold, no. Specified service businesses only lose the deduction as income rises through the phase-in range.

Want a plan for this year?

We run your numbers and show you the options. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

eminenttax.com