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The QBI deduction is not a tax strategy — it's an advisory strategy

by Matt Doran, Leader of Advanced Planning, &Partners

Most owners of pass-through businesses believe the qualified business income (QBI) deduction is something their CPA either captures or misses when preparing their tax return. That belief can quietly cost high earners tens, or even hundreds, of thousands of dollars over time.

The QBI deduction under Internal Revenue Code Section 199A is not a compliance exercise. It is an outcome design problem that sits at the intersection of income timing, deduction selection, capital deployment, and household coordination. When treated reactively, it often disappears. When managed proactively, it can become a powerful lever for after-tax wealth.

In other words, QBI is a generous deduction hiding in plain sight. The difference is not technical brilliance. It is leadership — knowing which decisions matter, when they matter, and who needs to be coordinating them.

What is a pass-through business?

Business entities such as sole proprietorships, partnerships, limited liability companies, or S corporations don't pay a corporate-level tax. Instead, profits "pass through" to the owner's personal tax return, which leverages the graduated tax brackets, potentially resulting in less tax liability than paying a flat corporate tax rate. In addition, passthroughs avoid the "double taxation" experienced by shareholders of C corporations where profit is taxed first at the corporate level and then a second time when dividends are paid to shareholders.

Prior to the implementation of the Tax Cuts and Jobs Act of 2017, the corporate tax rate was 35%, making pass-through business structures especially attractive from a tax standpoint. But when the corporate rate fell to 21%, that advantage narrowed, making the decision more context-dependent — particularly where future Section 1202 eligibility might also influence the analysis.

To ensure that pass-through entities were not unfairly taxed at higher rates (up to 37%), Congress introduced the QBI deduction, which allows up to 20% of qualifying business income to be deducted — effectively reducing the top rates for many business owners. Because QBI applies only to this type of income, and is subject to phaseouts and limitations, effective planning should account for both business-level decisions and the broader household picture.

Why QBI is so often mishandled

As noted above, the QBI deduction allows many pass-through business owners to deduct up to 20% of their qualifying business income. It is generous, but it is also fragile.

Congress designed the deduction with income thresholds, phaseouts, wage and capital limitations, and trade or business distinctions that make it easy to lose unintentionally. Once the year closes, most planning opportunities are gone.

The most common mistake business owners make is simple and understandable: They seek to optimize deductions instead of outcomes. Large retirement plan contributions, aggressive income deferral, and blanket use of bonus depreciation can all reduce taxable income while quietly shrinking — or eliminating — QBI eligibility. Each move may look prudent on its own. But taken together, they can undermine one of the most valuable deductions in the tax code. By the time a tax return is prepared, the decisions that determined QBI eligibility have already occurred.

Two calculations, two timelines

QBI depends on two separate calculations that are often treated as one.

- **Qualified business income**, driven by business-level decisions
- **Taxable income**, driven by household-level decisions

These numbers are influenced by different levers, often pulled by different professionals at different points in the year. When no one is responsible for coordinating them, QBI becomes accidental.

This is where advisory leadership matters. Someone must see the whole picture, understand how decisions interact, and sequence actions so they can work together rather than against each other. Without that coordination, even well-intentioned advice can collide.

Not all deductions behave the same way

One of the least intuitive aspects of QBI planning is that deductions behave very differently depending on where they apply. Some deductions can reduce QBI without helping eligibility. Others help eligibility without shrinking QBI. A small subset can do both — powerfully and dangerously — if used without modeling.

For example:

- **Retirement plan contributions** can have the effect of reducing QBI, and thus the deduction for those under the phaseout threshold, but can actually restore the deduction for those above it

- **Itemized deductions** can help restore eligibility by lowering taxable income. But because the QBI deduction is limited to 20% of taxable income minus net capital gains, excessive deductions can ultimately reduce the deduction itself
- **Depreciation** can reduce QBI while lowering taxable income, making it effective but blunt without precision

Maximizing deductions is not the same as maximizing after-tax wealth. In some years, restraint preserves more value than another write-off.

Managing the income landing zone

We believe exceptional advisors do not ask, “How much can we deduct?” They ask a more strategic question: “Where should this client’s income land this year?” That framing should force clarity before numbers are final and before deductions are locked in. It turns QBI planning into a proactive exercise rather than a postmortem.

Effective planning requires answering questions such as:

- Is QBI already mathematically gone or still recoverable?
- Is this a year to shelter income aggressively or a year to protect a 20% deduction?
- Which levers improve eligibility without damaging the underlying calculation?

These decisions must be made before the CPA prepares the return, not after.

A simple example: Where value is often lost

Consider a married couple where one spouse owns a successful pass-through business and the other earns W-2 income. Late in the year, they decide to maximize every available retirement contribution and accelerate depreciation on new equipment. Taxable income drops. Everyone feels good about the plan.

What no one modeled is that those deductions reduced QBI just enough to eliminate most of the QBI deduction — a deduction that would have been worth more than the tax savings created by the additional write-offs.

A different approach might have involved:

- Directing retirement contributions toward the W-2 spouse instead of the business owner, which could have the effect of lowering taxable income without reducing QBI
- Sequencing deductions over multiple years rather than front-loading them
- Preserving the QBI deduction in a year when eligibility was within reach

Nothing aggressive. Nothing exotic. Just coordination and foresight. That is the difference between reacting to a tax return and designing the outcome in advance.

Household-level planning is where QBI is won or lost

QBI appears on a tax return, but it is shaped by household behavior. Sophisticated planning often involves decisions such as:

- Whose income to shelter and whose to leave exposed
- Whether charitable giving restores eligibility or simply reduces value
- How capital expenditures affect both current and future deductions

This work rarely happens unless someone is intentionally coordinating the process. CPAs execute brilliantly when given a strategy. Strategy must come first.

Why multiyear thinking matters

QBI is calculated annually. Advisory value is created over time. High-income business owners tend to move through different phases:

- Years where QBI is fully available
- Years where it is partially recoverable with planning
- Years where it is mathematically unavailable

Knowing which year you are in, and acting accordingly, is the difference between strategy and luck. Treating every year the same can result in missed opportunities.

Two questions worth asking

Business owners: *“Is my advisory team proactively managing my income and deductions to preserve QBI — or are we just seeing what shows up on the tax return?”*

Advisors: *“Am I helping clients design outcomes — or merely reacting to numbers?”*

QBI planning does not replace CPAs. It should elevate advice. When advisors lead planning and CPAs execute strategy, clients stand to benefit.

A quick diagnostic

- Do you model income before year-end relative to QBI thresholds?
- Do you distinguish QBI-friendly deductions from QBI-destructive ones?
- Do you intentionally decide when not to maximize deductions?
- Do you coordinate planning across spouses?
- Do you think about QBI across multiple years, not just one return?

If several boxes are unchecked, QBI is likely being left to chance.

The bottom line

The QBI deduction is designed to reward foresight, coordination, and restraint. It can punish siloed thinking and last-minute decisions.

Advisors who understand this help clients design outcomes — deciding when to shelter income, when to preserve eligibility, and when restraint creates more value than another deduction.

For business owners, the realization is often striking. What once felt like a line item on a tax return becomes something more consequential.

Sometimes, the most valuable opportunities are not buried in complexity. They are hiding in plain sight.



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