KPMG

TaxNewsFlash

United States

No. 2019-314
June 18, 2019

Notice 2019-27: Guidance for cooperatives and patrons on QBI deduction

The IRS today released an advance version of Notice 2019-27 in connection to the proposed regulations as guidance and providing information on certain deductions available to cooperatives and their patrons.

As explained in an IRS release—**IR-2019-115**—the proposed regulations provide guidance for cooperatives and their patrons on calculating the deduction for qualified business income (the QBI deduction) and the deduction for domestic production activities for agricultural or horticultural cooperatives and their patrons (the section 199A(g) deduction). In addition, **Notice 2019-27** [PDF 85 KB] contains a proposed revenue procedure providing guidance on methods for calculating W-2 wages for purposes of section 199A(g).

In January 2019, final regulations on the new QBI deduction were published. Read KPMG's analysis of the final regulations in ***TaxNewsFlash***.

- The QBI deduction is available for tax years beginning after December 31, 2017, for taxpayers—including certain patrons of cooperatives—with income from a domestic business operated as a sole proprietorship, a partnership, S corporation, trust or estate.
- The QBI deduction is up to 20% of the qualified business income from the business. Some taxpayers may also be allowed a deduction up to 20% of qualified real estate investment trust dividends and publicly traded partnership income.

Patrons' deduction

Certain patrons who conduct business through cooperatives may be able to include patronage dividends and similar amounts they receive from those cooperatives to calculate their own QBI deduction. Today's IRS release provides an example—a farmer receiving patronage dividends from a marketing cooperative through which the farmer sells agricultural products may be able to include these dividends in calculating the QBI deduction from the farmer's agricultural business. The proposed regulations provide guidance to cooperatives and patrons regarding the QBI deduction.

Certain patrons, like farmers, must reduce their QBI deduction if they receive qualified payments from specified agricultural or horticultural cooperatives. The QBI deduction must be reduced by either 9% of the QBI from each business related to the qualified payments, or 50% of the wages allocated to each such business (whichever is the lesser amount). The proposed regulations provide guidance to patrons regarding the reduction to the QBI deduction.

Specified agricultural or horticultural cooperatives' deduction

Specified agricultural or horticultural cooperatives are allowed a section 199A(g) deduction for income attributable to domestic production activities—similar to the domestic production activities deduction under former section 199 before its repeal by the 2017 U.S. tax law.

Cooperatives cannot pass through any portion of their section 199A(g) deduction to patrons structured as C corporations, unless they are specified agricultural or horticultural cooperatives. The proposed regulations released today provide guidance to cooperatives and patrons regarding the section 199A(g) deduction.

Taxpayers may rely on the proposed regulations if they apply the rules in their entirety until final regulations are published.

For more information, contact KPMG's National Director of Cooperative Tax Services:

David Antoni | +1 (267) 256-1627 | dantoni@kpmg.com

Or Associate National Director of KPMG's Cooperative Tax Services:

Brett Huston | +1 (916) 554-1654 | bhuston@kpmg.com