

# Managed Service Organizations: Maximizing the Qualified Business Income Deduction

By Reid Burrows



**In the next instalment of our series on Managed Service Organizations (“MSOs”), this article will explore how business owners can establish an MSO to effectively take advantage of the Qualified Business Income (“QBI”) deduction.**

The QBI deduction, established by the Tax Cuts and Jobs Act of 2017 and codified under Section 199A of the Internal Revenue Code (“I.R.C.”), allows eligible owners of pass-through businesses—such as sole proprietorships, partnerships, and S corporations—to deduct up to 20% of their qualified business income from taxable income. The QBI deduction was previously set to expire at the close of 2025 but was made permanent with the enactment of the One Big Beautiful Bill Act on July 4, 2025.

QBI is the net amount of income, gain, deduction, and loss from a qualified U.S. trade or business, excluding investment income, wages, and certain payments to owners. However, this deduction is subject to important limitations for owners of Specified

Service Trades or Businesses (“SSTBs”), which include fields such as health, law, accounting, and consulting, where the principal asset is the reputation or skill of the owners or employees.

For SSTB owners, the QBI deduction begins to phase out once taxable income exceeds certain thresholds (\$201,750 for single filers and \$403,500 for joint filers in 2026) and is eliminated entirely above the top of the phase-out range (\$276,750 for single filers, \$553,500 for joint filers). As a result, high-earning professionals in these fields may not benefit from the QBI deduction at all if their income is above these limits. For taxpayers with QBI generated by a non-SSTB, a QBI deduction can still be taken even if income exceeds these thresholds, though it is limited

to the greater of 1) 50% of the W-2 wages paid by the business, or 2) 25% of the W-2 wages paid by the business plus 2.5% of the unadjusted basis immediately after acquisition of tangible property associated with the business.

One tax-planning strategy for SSTB owners is to establish an MSO to provide administrative and management services (such as billing, HR, IT, and compliance) to the SSTB. By structuring the MSO as a pass-through entity and ensuring it performs only non-specified services, the MSO's income may not be classified as SSTB income and thus not be subject to the limitations that apply to SSTBs. This is because management and administrative services are generally not considered SSTBs unless they are closely tied to the provision of professional services. It is crucial that the MSO operate independently, provide only non-SSTB services, and that all transactions between the MSO and the clinical practice be properly documented and conducted at fair market value.

In summary, using an MSO structure can help SSTB owners shield a portion of their business income from the QBI deduction phase-out, thereby maximizing tax savings on their administrative business activities. However, careful planning and compliance with IRS rules are essential to ensure the MSO's income is not recharacterized as SSTB income and to withstand IRS scrutiny. Thus, if interested in this strategy, it is recommended to consult with an experienced tax professional first.