

2013 Tax Provisions in the New Health Care Laws

3.8% Surtax on Net Investment Income

What Will Be Considered Investment Income?

Investment Income

Interest, Dividends, Capital Gains (long and short)
Annuities (but not annuities in IRAs or company plans)
Royalty Income
Passive Rental Income
Other Passive Activity Income

NOT Investment Income

Wages and Self-Employment Income
Active Trade or Business Income (including interest, dividends, capital gains)
Distributions from IRAs, Roth IRAs, and Company Plans
Excluded Gain from the Sale of a Principal Residence
Municipal Bond Interest
Proceeds of Life Insurance Policies
Veteran's Benefits
Gains on the Sale of an Active Interest in a Partnership or S Corporation
Taxable income from items that are NOT investment income can push taxpayers over the income threshold and cause investment income to be subject to the 3.8% surtax.

MAGI Threshold Amounts for 3.8% Surtax on Net Investment Income

Married Filing Joint	\$250,000.00
Individuals	\$200,000.00
Married Filing Separate	\$125,000.00
Trusts and Estates	\$12,000.00*

* Trusts are hit hard – The 3.8% surtax kicks in at much lower income levels for trusts. The threshold for trusts and estates is the amount at which the top trust tax bracket takes effect. This amount is \$11,200 in 2010, but by 2013 will be approximately \$12,000 since it is indexed for inflation. All other threshold amounts are NOT indexed for inflation.

Effective in 2013:

The 3.8% surtax applies to net investment income when MAGI exceeds these threshold amounts.

For this purpose, MAGI is a taxpayer's regular AGI, plus any foreign income excluded from AGI

The 3.8% Medicare tax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the threshold amount

Tax payers with income below these MAGI levels will not be subject to the tax

Other Health Care Tax Provisions Effective in 2013:

* Additional 0.9% Medicare tax on wages and self-employment income over the threshold amounts

* Medical expenses must exceed 10% of AGI (up from 7.5%) to be deductible (if age 65 or older, effective in 2017) – the 10% also applies to the medical expense exception to the 10% penalty on early IRA or plan withdrawals