NEW TAX ON INVESTMENT INCOME
Effective January 1, 2013

Basics:
Tax Rate: 3.8%
Applies to: Individuals with adjusted gross income (AGI) above $200,000. Couples filing a joint return with more than $250,000 AGI.
Types of Income: Interest, dividends, rents (less expenses), capital gains (less capital losses)

Formula:
The new tax applies to the LESSER of
Investment income amount
Excess of AGI over the $200,000 or $250,000 amount

Examples:

Capital Gain: Sale of a Principal Residence

John and Mary sold their principal residence and realized a gain of $525,000. They have $325,000 Adjusted Gross Income (before adding taxable gain). The tax applies as follows:

AGI before taxable gain	$325,000	
Gain on sale of Residence	$525,000	
Taxable Gain (added to AGI)	$ 25,000	($525,000 - $500,000)
New AGI	$350,000	($325,000 + $25,000 taxable gain)
Excess of AGI over $250,000	$100,000	($350,000 - $250,000)
Lesser amount (Taxable)	$ 25,000	(Taxable gain)
Tax due	$950	($25,000 x 0.038)

Capital Gain: Sale of a non-real estate asset

Barry and Michelle inherited capital assets that they have decided to liquidate. The sale of the assets generates a capital gain of $120,000. Their AGI before the gain is $140,000. They will pay the tax as follows:

AGI before capital gain	$140,000	
Gain on sale of assets	$120,000	
New AGI	$260,000	
Excess of AGI over $250,000	$10,000	
Lesser amount (Taxable)	$10,000	(Excess over $250,000)
Tax due	$380	

Capital Gains, Interest and Dividends: Securities

Harry and Sally have substantial income from their securities investments. Their AGI before including that income is $190,000. Their investment income is as follows:

Interest Income (Bonds, CDs)	$60,000	
Dividend Income	$75,000	
Capital Gains	$10,000	
Total Investment Income	$145,000	
New AGI	$335,000	($190,000 + $145,000)
Excess of AGI over $250,000	$ 85,000	($335,000 - $250,000)
Lesser amount (Taxable)	$ 85,000	(AGI excess)
Tax Due	$ 3,230	($85,000 x .038)

Rental Income: Income Sources Including Real Estate Investment Income

Hank has a "day job" from which he earns $85,000 a year. He owns several small apartment buildings and earns gross rents of $130,000. He also has expenses related to that income. Even though his combined gross rents and day job earnings are more than $200,000, he will not be subject to the 3.8% tax.

AGI before rents	$85,000	
Gross Rents	$130,000	
Expenses (including depreciation)	$110,000	
Net Rents	$20,000	
New AGI	$105,000	($85,000 + *net* rents)
Excess of AGI over $200,000	$0	
Taxable amount	$0	
Tax due	$0	

Rental Income: Rental Income as sole source of Earnings – Real Estate Trade or Business

Henrietta's sole livelihood is derived from owning and operating commercial buildings. Her income stream is as follows:

Gross rents	$750,000
Expenses (including depreciation)	$500,000
Net rents	$250,000
AGI (rental income)	$250,000
Excess of AGI over $200,000	$50,000
Taxable amount	$0

Because Henrietta's rental income is from a trade or business and therefore not treated as investment income, she is NOT subject to the 3.8% investment income tax.

Henrietta WILL be subject to new 0.9 tax on *earned* income, however, because some portion of the net rents represents her compensation for operating the commercial buildings.

For this example, assume that the net rents are her compensation. The tax on this *earned* income would be as follows:

AGI	$250,000	
Excess of AGI over $200,000	$50,000	
Tax due	$450	($50,000 x .009)