TITLE COMPANY OF THE ROCKIES experience *the experience*

The Patient Protection and Affordable Care Act (PPACA)

(Commonly called Obamacare)

“Medicare Trust Fund Tax” on Investment Income

The Real Estate Component

Introduction

A new 3.8% (0.038) tax on some investment income will take effect January 1, 2013. This new tax will effect some real estate transactions, but it will not be imposed on all real estate transactions. It is not collected at settlement. The new tax is oftentimes called a Medicare Tax because the revenues from it are to be dedicated to the Medicare Trust Fund. That Fund is being depleted and this tax was intended as a means of keeping the Fund in place. A 3.8% tax may be imposed on some (but not all) income from interest, dividends, net rents, and net capital gains. The tax should only apply to individuals with an adjusted gross income (AGI) above $200,000 and for couples filing a joint return with more than $250,000 in AGI. This component of the PPACA’s health care reform package is expected to raise tax revenues of more than $210 Billion over a ten (10) year window.

Some have provided that another way to view this new tax is to think of it being a 3.8% tax being imposed on a portion of the money you make – on your money – your capital (routinely called “Unearned Income”). And if that is not enough, there is also a second new tax that is imposed on your so-called “Earned Income” applicable to higher income individuals at a rate of 0.9% (0.009). This additional (or alternative tax) is also based on AGI thresholds of $200,000 for an individual and $250,000 on joint returns. The additional 0.9% tax applies to the excess of Earned Income that exceed the above stated threshold amounts.

Some Examples of the 3.8% tax

The new tax applies to the LESSER OF: (1) investment income amount, or (2) excess of AGI over the $200k or $250k amounts. Scenarios to consider –

Sale of a Principal Residence for gain of $525k / Couple has $325k AGI

Taxable Gain (added to AGI)	$25,000 *($525,000 minus $500,000)*
New AGI	$350,000 *($325,000 plus $25,000 gain)*
Excess over $250k threshold	$100,000, OR
Lesser amount	$25,000 (*taxable gain)*
Tax owed	$950 *($25,000 times 0.038)*

Vacation Home purchased for $275,000 and never rented. Sold for $335k in year they have Earned Income from other sources of $225k

Gain on Sale	$60,000 *($335,000 minus $275,000)*
Earned Income other sources	$225,000
New AGI	$285,000 *($60,000 gain plus $225,000)*
Excess over $250k threshold	$35,000 *(285,000 minus $250,000)*
Capital Gain	$60,000, OR
Lesser Amount	$35,000 *(AGI excess)*
Tax owed	$1,330 *($35,000 times 0.038)*

For additional scenarios or explanations on the PPACA see: www.Realtor.org/healthreform, http://en.wikipedia.org, and http://www.snopes.com/politics/taxes/realestate.asp. Seek tax advice from your attorney or accountant.