
3.8 % MEDICARE TAX ON NET INVESTMENT INCOME

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The Net Investment Income Tax went into effect on Jan. 1, 2013. Individuals will owe the tax if they have Net Investment Income and also have modified adjusted gross income over the following thresholds:

Filing Status	Threshold Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$250,000

These threshold amounts are not indexed for inflation. For the Net Investment Income Tax, modified adjusted gross income is adjusted gross income increased by foreign earned income otherwise excluded under Code Sec. 911; modified adjusted gross income is the same as adjusted gross income for someone who does not work overseas.

In general, investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities and businesses that are passive activities to the taxpayer (within the meaning of section 469).

To the extent that gains are not otherwise offset by capital losses, the following gains are common examples of items taken into account in computing Net Investment Income:

1. Gains from the sale of stocks, bonds, and mutual funds; Capital gain distributions from mutual funds.
2. Gain from the sale of investment real estate (including gain from the sale of a second home that is not a primary residence).
3. Gains from the sale of interests in partnerships and S corporations (to the extent the partner or shareholder was a passive owner).

In order to arrive at Net Investment Income, Gross Investment Income is reduced by deductions that are properly allocable to items of Gross Investment Income. Examples of deductions, a portion of which may be properly allocable to Gross Investment Income, include investment interest expense, investment advisory and brokerage fees, expenses related to rental and royalty income, tax preparation fees, fiduciary expenses (in the case of an estate or trust) and state and local income taxes.

The 0.9% Additional Medicare Tax applies to individuals' wages, compensation and self-employment income over certain thresholds, but it does not apply to income items included in Net Investment Income. In other words, you may be subject to both taxes, but not on the same type of income.

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