

Medicare Tax Q & A

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Q. Is there a real estate “sales tax” or a transfer tax in the new health care bill?

A. No, there is neither a real estate “sales tax” nor a transfer tax in the bill.

Q. What new taxes are there in the health care bill that will impact property owners?

A. There is a new 3.8% Medicare tax for “High Income Filers,” defined as an individual who files a single return with Adjusted Gross Income (AGI) of more than \$200,000 or a married couple with AGI of more than \$250,000.

Q. When does the new 3.8% Medicare tax take effect?

A. The new Medicare tax will take effect January 1, 2013

Q. How is the new 3.8% Medicare tax calculated for high-income filers?

A. The new 3.8% Medicare tax is assessed only when the \$200K/\$250K AGI limits are exceeded. The net investment income that will be subject to tax is the **LESSER** of (1) net investment income **OR** (2) the excess of AGI over the \$200K/\$250K AGI limit.

Investment income includes: capital gains, rents, dividends, interest and business income earned by shareholders or partners not active in the business. Net investment income is investment income minus any allowable expense deductions.

Q. How will property owners be affected by this new tax?

A. Keeping in mind the income limitations above, real estate income that will be affected for high-income filers include:

- **Sale of a primary residence:** If the gain from the sale of the property is below \$250,000 (individual)/\$500,000 (couple) **NO** tax will have to be paid on the gain. The new Medicare tax would only apply to any gain realized over the \$250K/\$500K existing primary home exclusion that will bring the filers AGI over the \$200K/\$250K limits.
- **Second Home/Investment property:** The additional 3.8% tax will apply to the portion of the gain realized on the sale of a second home or investment property that will bring the filers AGI over the \$200K/\$250K limit.
- **Rental Income:** The portion of net rental income that exceeds the \$200K/\$250K AGI limits will be subject to the new 3.8% tax

Q. Will “High Income Filers” also see a reduction in the amount of Mortgage Interest they are allowed to deduct?

A. No, there was not a cap on itemized deductions included in the final health care bill.