DECEMBER 1, 2012

Additional Medicare and Investment Taxes

The Affordable Care Act imposes two additional types of taxes beginning in 2013. Friday afternoon the Internal Revenue Service pre-released the regulations governing the application of these additional taxes.

The ACA imposes an additional tax for each taxable year equal to 3.8 percent of the lesser of (a) the individual's net investment income for such taxable year, or (b) the excess (if any) of (i) the individual's modified adjusted gross income for such taxable year, over (ii) the threshold amount. The threshold amount is: (1) in the case of a taxpayer making a joint return, $250,000; (2) in the case of a married taxpayer filing a separate return, $125,000; and (3) in any other case, $200,000. While distributions from qualified plans are exempt from the tax, the regulations are silent as to how nonqualified deferred compensation is treated.

The ACA also increased the employee portion of Medicare tax for wages received in any taxable year beginning after December 31, 2012, by an additional 0.9 percent of FICA wages which are in excess of certain threshold amounts. The threshold amount is $250,000 in the case of a joint return, $125,000 in the case of a married taxpayer filing a separate return, and $200,000 in any other case. The Additional Medicare Tax also differs from the regular Medicare Tax in that there is no employer portion to correspond to the amount owed by the employee.

Net Investment Income Pre-Release Regulation

Additional Medicare Tax on Wages Pre-Release Regulation