

# Golden Bullets

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## THE NEW MEDICARE SURTAX: THINGS TO CONSIDER

Many of the provisions of the Affordable Care Act (ACA), also known as ObamaCare, went into effect this year.

My business owner clients are struggling to understand how the ACA will change health insurance obligations to their employees. Individual clients are sorting out whether to buy new health coverage from the federal government or a state exchange—or whether to keep their existing health insurance.

Taxes and the ACA have come together in a number of ways. First, a few taxpayers have been hit with an extra .9 percent Social Security tax obligation on their high earned income. Second, certain business owners who fail to provide health insurance to employees by the deadline will have to pay a special tax penalty. Likewise, individuals who fail to buy personal health coverage may have to pay their own penalty taxes.

One of the biggest tax changes designed to help pay for the cost of the ACA was the new 3.8 percent Medicare surtax. Combined with the other federal tax changes that affect high income taxpayers, the Medicare surtax can dramatically increase the total tax liability for my most successful clients.

The surtax applies to all of a taxpayer's *net investment income* that is in excess of the *threshold amount*. The threshold amount is essentially the amount an individual can earn before incurring the surtax. An individual's threshold amount depends on the individual's marital status as follows:

- \$250,000 for married individuals filing a joint return;
- \$125,000 for married individuals filing separate returns; or
- \$200,000 for everyone else.

Here's a quick example of how the surtax works. Thom, a single-filing taxpayer, earned \$190,000 in 2013, which includes \$50,000 of net investment income. He incurs no surtax because his income does not surpass his \$200,000 threshold.

In 2014, Thom's income increases to \$220,000, which again includes \$50,000 of net investment income. He's liable for the surtax on \$20,000—the amount by which his net investment income exceeds the \$200,000 threshold. He'll pay a \$760 surtax (3.8 percent of \$20,000). That amount is in addition to any other state and federal income tax liabilities.

These changes may affect your own income tax planning now and in the future. I recommend you take time to review your tax planning with your tax professional in light of the new surtax. Please let me know if I can answer any questions.

***AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.***

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