

Pro@ctive CPA
Interact With Your Accountant
Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA
From: Cindy Freking, CPA, Tax Manager
Date: September 10, 2013
Re: The New Surtax

Beginning in 2013, there is a new surtax on net investment income of certain individuals, estates and trusts. The surtax rate is 3.8%.

Individuals

The surtax is in addition to regular income tax as well as alternative minimum tax. The tax is imposed on the lesser of net investment income for the year or the excess of the individual's income over a threshold amount. An example would be the best illustration of how the surtax is calculated.

Example 1:

A and B are married filing a joint return and together have income totaling \$500,000 all of which is salary. They have no investment income. Therefore, their surtax is \$0 (no tax).

Example 2:

A and B are married filing a joint return and together have income totaling \$500,000 all of which is salary. They have \$50,000 of net investment income. The surtax is computed on the lesser of \$550,000 - \$250,000 (threshold for married filing jointly) or net investment income. In this example the surtax is $\$50,000 \times 3.8\% = \$1,900$.

Example 3:

A and B are married filing a joint return and have \$225,000 of salary and \$125,000 of investment income. In this instance the surtax is calculated on the lesser of $\$350,000 - \$250,000 = \$100,000$ or \$125,000. In this example, the surtax is $\$100,000 \times 3.8\% = \$3,800$.

The thresholds for married filing separately are \$125,000 and for all other filing status types are \$200,000.

Estates and Trusts

An estate or trust is subject to the surtax to the extent of the lesser of the estate or trust's undistributed income or the excess if any of the entity's Adjusted Gross Income over \$11,950. If you have an estate or a trust question it would be best to contact our office.

Exactly What is Net Investment Income?

Net Investment Income is interest, dividends, annuities, royalties, and rents other than income derived in the ordinary course of a trade or a business not considered passive. Certain investment expenses can be used to offset the income such as IRA custodial fees and investment advisory fees.

In addition, net gain from the disposition of property not held in a trade or business. This is the most simplistic of definitions.

Conclusion

This tax year will be challenging as you could be subject to an additional 3.8% of income tax you were not expecting. We strongly urge you to contact our office to discuss some year-end tax planning and to gain a better understanding of whether or not the surtax will impact you.

Please contact your Pro@ctive CPA team should you have any questions. My direct line is (770) 664-8583, extension 561.

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