

# NAR Frequently Asked Questions Health Insurance Reform



National Association of REALTORS® Government Affairs Division  
500 New Jersey Avenue, NW, Washington DC, 20001

## MEDICARE TAX ON NET INVESTMENT INCOME

### 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.



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- **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.

