Top 10 Things You Need To Know About the 3.8 Tax

1. When you add up all of your income from every possible source, and that total is less than $200,000 ($250,000 on a joint tax return), you will *not* be subject to this tax.
2. The 3.8% tax will *never* be collected as a transfer tax on real estate of any type, so you'll *never* pay this tax at the time that you purchase a home or other investment property.
3. You'll *never* pay this tax at settlement when you sell your home or investment property. Any capital gain you realize at settlement is just one component of that year's gross income.
4. If you sell your principal residence, you will still receive the full benefit of the $250,000 (single tax return)/$500,000 (married filing joint tax return) exclusion on the sale of that home. If your capital gain is greater than these amounts, then you will include any gain above these amounts as income on your Form 1040 tax return. Even then, if your total income (including this taxable portion of gain on your residence) is less than the $200,000/$250,000 amounts, you will *not* pay this tax. If your total income is more than these amounts, a formula will protect some portion of your investment.
5. The tax applies to other types of investment income, not just real estate. If your income is more than the $200,000/$250,000 amount, then the tax formula will be applied to capital gains, interest income, dividend income and net rents (i.e., rents after expenses).
6. The tax went into effect on January 1, 2013. If you have investment income in 2013, you won't pay the 3.8% tax until you file your 2013 Form 1040 tax return in 2014. The 3.8% tax for any later year will be paid in the following calendar year when the tax returns are filed.
7. In any particular year, if you have no investment income (such as income from capital gains, rents, interest or dividends), you'll *never* pay this tax, even if you have millions of dollars of other types of income.
8. The formula that determines the amount of 3.8% tax due will *always* protect $200,000 ($250,000 on a joint return) of your income from any burden of the 3.8% tax. For example, if you are single and have a total of $201,000 income, the 3.8% tax would *never* be imposed on more than $1,000.
9. It's true that investment income from rents on an investment property could be subject to the 3.8% tax. But: The only rental income that would be included in your gross income and therefore possibly subject to the tax is net rental income: gross rents minus expenses like depreciation, interest, property tax, maintenance and utilities.
10. The tax was enacted along with the health care legislation in 2010. It was added to the package just hours before the final vote and without review. NAR strongly opposed the tax at the time, and remains hopeful that it will not go into effect.

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