

TWO NEW FEDERAL TAXES

Effective January 1, 2013



Federal 3.8% Sales Tax:

Q. Will my Real Estate closings, beginning in 2013, be subject to a new Federal 3.8% Sales Tax?

A. In conjunction with the significant new Federal Health Care Reform legislation passed in 2010, the law included a new 3.8% tax on Investment Income which will take effect in 2013. The new tax, intended to generate revenue to help fund the new Healthcare Reform and Medicare overhaul plans, will not be imposed on all real estate transactions. When the new tax becomes effective January 1, 2013 it may impose a 3.8% tax on some (but not all) income from interest, dividends, rents (less expenses) and capital gains (less capital losses).

The tax will be applicable to individuals with an adjusted gross income (AGI) above \$200,000 and to couples filing a joint return with more than \$250,000 AGI.

Medicare Funding Additional or Alternative Tax on Earned Income at a Rate of 0.9%:

A Second New Tax, also dedicated to Medicare funding, is an additional or alternative tax imposed on Earned Income at a rate of 0.9% imposed on adjusted gross income thresholds of \$200,000 for an individual and \$250,000 on a joint return.

The National Association of Realtors has published a brochure which explains the new taxes and also includes examples of various transactions which may be impacted by the new tax laws. The brochure and its discussion of the impact of the two new tax laws may be found on the following website: <http://www.realtor.org>.

See also: www.Realtor.org/healthreform for a discussion of Frequently Asked Questions not covered in the examples of the brochure.

The brochure addresses examples of:

1. *Capital Gain: Sale of a Principal Residence*
2. *Capital Gain: Sale of a Non-Real Estate Asset*
3. *Capital Gains, Interests, Dividends, and Securities*
4. *Rental Income: Income Sources Including Real Estate Investment Income*
5. *Rental Income: Rental Income as Sole Source of Earnings - Real Estate Trade or Business*
6. *Sale of a Second Home with No Rental Use (or no more than 14 days rental)*
7. *Sale of an Inherited Investment Property (Residential or Commercial)*
8. *Purchase and Sale of Investment Property (Residential or Commercial)*

Q. Will these new taxes affect my Title and Escrow?

A. Neither of the new taxes are required to be collected and paid to the IRS by Title or Escrow at the close of your transaction. Sellers are encouraged to review their tax liabilities related to these new laws with their Tax Attorney and/or Certified Public Accountant (CPA).

Source: Mike Dullea, West Region UW Counsel, TRGC





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