

CLIENT ALERTS

Medicare Tax Increases Beginning in 2013

8.21.2012

August 21, 2012

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The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA) provide for increases in Medicare taxes beginning in 2013 and, for the first time, subjects non-wage income to Medicare tax.

Wages and Self-Employment Income

The PPACA imposes an additional .09% Medicare tax on wages and self-employment income for tax years beginning after December 31, 2012. The additional tax applies to individuals with compensation in excess of certain threshold amounts (\$200,000 for single taxpayers, \$250,000 for married taxpayers filing a joint return, and \$125,000 for married couples filing separate returns). The new Medicare tax rate on wages and self-employment income in excess of the threshold amounts will be 2.35% for employees and 3.8% for self-employed individuals.

Unearned Income

The HCERA imposes a Medicare tax of 3.8% on investment income for tax years beginning after December 31, 2012. The additional tax applies to individuals, estates and trusts on the lesser of net investment income or modified adjusted gross income for individuals and adjusted income for estates and trusts in excess of certain threshold amounts (\$200,000 for single taxpayers, \$250,000 for married taxpayers filing a joint return, \$125,000 for married couples filing separate returns, and generally \$11,650, based on the 2012 tax brackets, for estates and trusts).

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