



## The Commercial Classroom: The impact of the new taxes on you and your clients

March 11, 2013 - Long Island

New Individual Tax Rate of 39.6% for individuals with Adjusted Gross (AGI) over \$400,000 and married filing jointly over \$450,000.

Social security withholding from your pay check was reduced in 2010 to 4.2%: this expired December 31, 2012; the current social security withholding is now 6.2%. The wage ceiling on social security contributions has been increased to \$113,700.

Affordable Care Act - Medicare taxes are currently 1.45% paid by the employer and 1.45% paid by the employee. As of January 1, employees whose wages exceed \$200,000 as individuals or \$250,000 as married filers will now be taxed an additional .09% on income in excess of those thresholds. There is no limit on medicare taxes.

Phase out of personal and dependent exemptions, individual taxpayers with adjusted gross income (AGI) over \$250,000 or married filing jointly with AGI over \$300,000, will have their personal and dependent exemptions reduced by 2% for each \$2,500 over the threshold.

Phase out of itemized deductions ("Pease" Provision Limitation), individuals taxpayer with adjusted gross income (AGI) over \$250,000 or married filing jointly with AGI over \$300,000 will have their itemized deductions reduced by 3% of the amount of AGI over the threshold, limited to 80% of itemized deductions being reduced. Important deductions are reduced: mortgage interest, real estate property taxes, charitable giving and others. Some itemized deductions are exempt: casualty and theft losses, gambling losses and medical expense deductions. However, prior to January 1, you could deduct medical expenses that exceeded 7.5% of your AGI; now medical expenses must exceed 10% of AGI to be deductible.

Medicare Surcharge on Net Investment Income - a new 3.8% tax is due on individuals, estates and trusts if the taxpayer has Net Investment Income and adjusted gross income of \$200,000 individual or \$250,000 married. The tax is based on the excess AGI or the net investment income, whatever the lesser amount is. This will be the most difficult tax to apply as you must look at both Net Investment Income and the regular income of the taxpayer.

### Example 1

John has a job which pays him \$85,000 a year. Plus he owns a small apartment building that has gross rents of \$130,000 this year. He also has expenses relating to the apartment income.

### Tax Analysis

AGI from job - \$85,000

Gross rents from apartment - \$130,000

Less expenses\* - \$110,000

Net rents - \$20,000

New AGI - \$105,000

Under \$200,000 AGI - No Tax Due

\*Important note: The buildings expenses include depreciation and mortgage interest

Example 2

John and Mary are married, they file their taxes jointly; they both work and have combined income of \$285,000. They own a small apartment building that has gross rents of \$130,000 this year and they have expenses relating to the apartment income.

Tax Analysis

AGI from job - \$285,000

Gross rents from apartment - \$130,000

Less expenses - \$110,000

Net rents - \$20,000

New AGI - \$305,000

Excess of AGI over \$250,000 - \$55,000

Net Investment Income - \$20,000

Tax on lesser ( $\$20,000 \times .038$ ) - \$760

Plus because their combined wages exceed \$250,000 they will be subject to the supplemental medicare tax on there income of \$285,000.

Excess wages over \$250,000 - \$35,000

Medicare Tax ( $\$35,000 \times .009$ ) - \$315

Disclaimer: All taxpayers should discuss their situation with a professional tax advisor or accountant. Certain of the tax changes have specific rules and exclusions. As agents we can talk about taxes, but always refer your client to a tax professional.

Next Month: The impact of the new taxes on capital gains

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