

Real Estate Tax for Health Care?

What is really going on with this 3.8% tax? Does it exist? Is it a sales tax? Or is it income or a transfer tax? Truth is, no matter what you call it, it does or will exist and in certain situations it applies to investment income, dividends, real estate profits— *all unearned income*. Officially the tax is a Medicare Tax and is seen as a *payroll tax* as opposed to an income tax. In any event, this is the way I see it.

Starting in 2013, individuals (it's slightly different for married couples) with an adjusted gross income (AGI) of over \$200,000 will pay a 3.8% tax on the **profit** from the sale of their primary residence or investment properties over a certain profit threshold.

First the good news.... a married couple with less than \$500,000 **profit** on the **primary** residence or a single person with less than \$250,000 **profit** will pay no additional taxes.

Here's how it works:

Primary Residence

An individual with an AGI of over \$200,000 sells the primary residence for \$900,000, which they had purchased for \$400,000. The first \$250,000 of the \$500,000 profit is tax free. However, the other \$250,000 will be taxed at 3.8% (\$9,500) plus the applicable income tax.

Investment Property

If the same situation occurred as stated above, the entire \$500,000 profit would be taxed at 3.8% (\$19,000), plus the applicable income tax.

For married couples the AGI is \$250,000 and the first \$500,000 in profit on the primary residence is tax free.