



The New 3.8% Tax on Net Investment Income -- Ready or Not!

Austin Chapter, Texas Society of CPAs

March 21, 2014

Peggy A. Ugent, CPA
Giordani, Swanger, Ripp & Phillips, LLP

100 CONGRESS AVENUE, SUITE 1440 | AUSTIN, TEXAS 78701

phone 512.767.7100 | *fax* 512.767.7101 | WWW.GSRP.COM

Biography and Contact Information

Ms. Ugent functions as the accounting and tax director for all areas of the firm's practice. She provides counsel to firm attorneys on income and transfer tax considerations with regard to proposed business transactions, choice of entity structure, and investment in pass-through entities. In her role as tax director for the firm, Ms. Ugent regularly researches and analyzes complex domestic and international tax issues, facilitates tax reporting and compliance for foreign trusts and domestic entities, and assists in the preparation of estate and gift tax returns. Ms. Ugent has extensive experience in the preparation and examination of all types of federal and state income tax returns, and her previous experience as a partner in a public accounting firm provides a strong background for dealing with the income and transfer tax issues encountered by the firm's clients. Ms. Ugent is a member of the American Institute of Certified Public Accountants Trust, Estate and Gift Tax Technical Resource Panel, and also serves on the AICPA's Foreign Trust Task Force.

Peggy A. Ugent, CPA

Director

512.370.2756 *direct*

512.767.7101 *fax*

pugent@gsrp.com

www.gsrp.com



IRS Circular 230 Disclosure

- ◆ Any tax information contained herein was not intended or written by the author or the author's firm to be used and it cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. Any tax information contained herein may be held by Treasury or the IRS to have been written to support, as that term is used in Treasury Department Circular 230, the promotion or marketing of the transactions or matters addressed by such information because the author has reason to believe that it may be used or referred to by another person in promoting, marketing or recommending a partnership or other entity, investment plan or arrangement to one or more taxpayers. Before using any tax information contained herein, a taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.



Overview

- ◆ Enacted as part of Health Care and Education Reconciliation Act of 2010
- ◆ Imposes additional tax of 3.8% on the lesser of:
 - net investment income for the year, or
 - excess of modified adjusted gross income over the “threshold amount”
 - \$250,000 on joint returns
 - \$125,000 for MFS
 - \$200,000 for single
- ◆ Applies to Individuals, Estates and Trusts
- ◆ Effective for 2013 and later years



Overview (cont'd)

- ◆ Does not apply to:
 - Nonresident Aliens
 - Charitable Remainder Trusts (but beneficiaries of CRT subject to tax on distributions of net investment income)
 - Foreign Estates (but estate beneficiaries subject to tax on distributions of net investment income)
 - Distributions of accumulated income from foreign trusts to U.S. beneficiaries pending issuance of final regulations on this point
- ◆ Proposed regulations issued December 5, 2012;
 - final regulations released November 26, 2013
 - some portions remain in proposed form or are reserved
- ◆ Draft Form 8960, “Net Investment Income Tax – Individuals, Estates and Trusts” issued August 6, 2013; instructions issued January 2014 (19 pages!)
- ◆ Final Form 8960 released January 27, 2014



Form **8960**

**Net Investment Income Tax—
Individuals, Estates, and Trusts**

OMB No. 1545-2227

2013

Department of the Treasury
Internal Revenue Service (99)

► Attach to Form 1040 or Form 1041.
► Information about Form 8960 and its separate instructions is at www.irs.gov/form8960.

Attachment
Sequence No. **72**

Name(s) shown on Form 1040 or Form 1041

Your social security number or EIN

Part I Investment Income		<input type="checkbox"/> Section 6013(g) election (see instructions)	
		<input type="checkbox"/> Regulations section 1.1411-10(g) election (see instructions)	
1	Taxable interest (Form 1040, line 8a; or Form 1041, line 1)	1	
2	Ordinary dividends (Form 1040, line 9a; or Form 1041, line 2a)	2	
3	Annuities from nonqualified plans (see instructions)	3	
4a	Rental real estate, royalties, partnerships, S corporations, trusts, etc. (Form 1040, line 17; or Form 1041, line 5)	4a	
b	Adjustment for net income or loss derived in the ordinary course of a non-section 1411 trade or business (see instructions)	4b	
c	Combine lines 4a and 4b	4c	
5a	Net gain or loss from disposition of property from Form 1040, combine lines 13 and 14; or from Form 1041, combine lines 4 and 7	5a	
b	Net gain or loss from disposition of property that is not subject to net investment income tax (see instructions)	5b	
c	Adjustment from disposition of partnership interest or S corporation stock (see instructions)	5c	
d	Combine lines 5a through 5c	5d	
6	Changes to investment income for certain CFCs and PFICs (see instructions)	6	
7	Other modifications to investment income (see instructions)	7	
8	Total investment income. Combine lines 1, 2, 3, 4c, 5d, 6, and 7	8	
Part II Investment Expenses Allocable to Investment Income and Modifications			
9a	Investment interest expenses (see instructions)	9a	
b	State income tax (see instructions)	9b	
c	Miscellaneous investment expenses (see instructions)	9c	
d	Add lines 9a, 9b, and 9c	9d	
10	Additional modifications (see instructions)	10	
11	Total deductions and modifications. Add lines 9d and 10	11	
Part III Tax Computation			
12	Net investment income. Subtract Part II, line 11 from Part I, line 8. Individuals complete lines 13–17. Estates and trusts complete lines 18a–21. If zero or less, enter -0-	12	
Individuals:			
13	Modified adjusted gross income (see instructions)	13	
14	Threshold based on filing status (see instructions)	14	
15	Subtract line 14 from line 13. If zero or less, enter -0-	15	
16	Enter the smaller of line 12 or line 15	16	
17	Net investment income tax for individuals. Multiply line 16 by 3.8% (.038). Enter here and on Form 1040, line 60	17	
Estates and Trusts:			
18a	Net investment income (line 12 above)	18a	
b	Deductions for distributions of net investment income and deductions under section 642(c) (see instructions)	18b	
c	Undistributed net investment income. Subtract line 18b from 18a (see instructions)	18c	
19a	Adjusted gross income (see instructions)	19a	
b	Highest tax bracket for estates and trusts for the year (see instructions)	19b	
c	Subtract line 19b from line 19a. If zero or less, enter -0-	19c	
20	Enter the smaller of line 18c or line 19c	20	
21	Net investment income tax for estates and trusts. Multiply line 20 by 3.8% (.038). Enter here and on Form 1041, Schedule G, line 4	21	

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 59474M

Form **8960** (2013)



Threshold Amounts

- ◆ Application to Individuals – Tax applies to lesser of
 - net investment income for the year, or
 - excess of modified adjusted gross income over the “threshold amount”
 - \$250,000 on joint returns
 - \$125,000 for MFS
 - \$200,000 for single
- ◆ Application to Estates and Trusts – Tax applies to lesser of
 - undistributed net investment income for the year, or
 - excess of adjusted gross income over the dollar amount at which the highest tax bracket begins for such taxable year (for 2013, \$11,950)



Definitions

- ◆ Modified Adjusted Gross Income – adjusted gross income plus foreign earned income exclusion
- ◆ Net Investment Income – excess of sum of:
 - gross income from investments;
 - gross income from passive trades or businesses, or the trade or business of trading in financial instruments or commodities;
 - net taxable gain from investment or passive investments over deductions properly allocable to such income or gain



Excluded Income

- ◆ Distributions from retirement plans and individual retirement accounts
- ◆ Income from wages or self-employment
- ◆ Income from active trades or businesses
- ◆ Any item taken into account in determining self-employment income



Income Subject to Tax

- ◆ Gross income from the following, to the extent not derived in ordinary course of trade or business:
 - Interest
 - Dividends
 - Annuities
 - Royalties
 - Rents
- ◆ Gross income from trade or business which is
 - passive activity (within the meaning of §469)
 - trade or business of trading in financial instruments or commodities



Income Subject to Tax (cont'd)

- ◆ Net gain attributable to the disposition of investment or a passive activity
 - includes taxable net gain from unproductive real estate, including taxable portion of gain on sale of principal residence
- ◆ Investment income from working capital
- ◆ Deferred income not subject to tax until recognized, for example
 - §1031 (Like-Kind Exchange)
 - §1033 (Involuntary Conversions)
 - §453 (Installment Sales)



Deductions Against Gross Investment Income

- ◆ Deductions “properly allocable” to rent and royalty income
- ◆ Deductions “properly allocable” to gross income from passive trades or businesses
- ◆ Penalty on early withdrawal
- ◆ §1411 Net Operating Loss
- ◆ Investment Interest Expense
- ◆ Investment Expenses (defined in §163(d)(4)(C))
- ◆ State, local and foreign income taxes allocable to net investment income – foreign taxes deductible only if foreign tax credit not claimed
- ◆ §691(c) deduction for income in respect of a decedent (to extent allocable to NII)
- ◆ §212(3) deductions (expenses for determination, collection, or refund of any tax) to extent allocable to NII
- ◆ Deductions for NII determined after §67 (2% AGI limitation) and §68 (overall limitation on itemized deductions)



Loss Carryforwards

- ◆ Capital loss carryforward offsets investment income in determining net investment income (even if incurred prior to 2013)
- ◆ Passive loss carryforward – suspended passive losses reduce net investment income, but only to the extent that losses offset income included in net investment income (for example, limited if former passive activity)



Net Operating Losses

- ◆ Net operating loss deductible in determining modified adjusted gross income threshold
- ◆ Special NOL deduction computed for §1411
 - Determine “applicable portion” of NOL – the lesser of
 - amount of NOL taking into account only items of §1411 gross income and allocable deductions, or
 - taxpayer’s NOL
 - Determine §1411 NOL
 - regular NOL multiplied by fraction:
 - Numerator is applicable portion of NOL for loss year
 - Denominator is total NOL for same loss year



Calculation and Payment

- ◆ Non-deductible Tax
- ◆ Includable in Estimated Tax for underpayment penalty calculation
- ◆ Not subject to withholding
- ◆ Not included in regular tax for Alternative Minimum Tax (AMT)
- ◆ Not creditable for foreign tax credit purposes



NIIT for Estates and Trusts

- ◆ Excluded trusts include:
 - Grantor Trusts (tax paid at grantor level)
 - Charitable Remainder Trusts (but non-charitable beneficiary taxed on distribution of NII)
 - Foreign Trusts and Estates (but U.S. beneficiary taxed on distribution of NII)
- ◆ Application to estates and nongrantor trusts:
 - Undistributed NII, or
 - Excess of AGI over \$11,950 (for 2013)



NIIT for Estates and Trusts (cont'd)

- ◆ Adjusted gross income for this purpose defined by §67(e):

Total income reduced by:

- deductions for expenses incurred due to its status as trust or estate;
- income distribution deduction; and
- charitable contribution

- ◆ Computation of undistributed NII:

NII reduced by lesser of:

- allocation of NII to beneficiary, or
- Entity NII

- ◆ Income distribution deduction under §§651 and 661 (and corresponding income inclusion to beneficiaries under §§652 and 662) must allocate between NII and other income on prorata basis
- ◆ Threshold question: how is “material participation” determined for a trust or estate?



NIIT for Estates and Trusts (cont'd)

- ◆ Example:

Complex Trust T has following income and distributes \$10,000 to its beneficiary;

Dividends	\$ 15,000
Interest	10,000
Capital Gain	5,000
IRA Distribution	<u>75,000</u>
Total Income	\$105,000
Income Distribution Deduction	(10,000)
Taxable Income	95,000



NIIT for Estates and Trusts (cont'd)

Allocation of DNI

	<u>Trust DNI</u>	<u>Allocable to Trust (90%)</u>	<u>Allocable to Beneficiary (10%)</u>
Dividends	\$15,000	\$13,500	\$1,500
Interest	10,000	9,000	1,000
IRA Distribution	75,000	67,500	7,500
	<hr/> \$100,000	<hr/> \$90,000	<hr/> \$10,000

Allocation of Net Investment Income

	<u>Total</u>	<u>Trust</u>	<u>Beneficiary</u>
Dividends	\$15,000	\$13,500	\$1,500
Interest	10,000	9,000	1,000
Capital Gain	5,000	5,000	0
	<hr/> \$30,000	<hr/> \$27,500	<hr/> \$2,500



Special Rule for Electing Small Business Trusts (ESBT)

- ◆ Taxation of ESBT – General Rules
 - S portion of trust is taxed at highest individual rate (currently 39.6%)
 - Trust pays tax on S portion (no income distribution deduction)
 - Non-S portion taxed under normal trust taxation rules
- ◆ Regulations describe 3-step process for calculating NIIT:
 - Step 1: Compute undistributed NII separately for S portion and Non-S portion;
 - Step 2: ESBT calculates its AGI (non-S portion plus S portion); and
 - Step 3: ESBT pays tax on the lesser of
 - ESBT's total undistributed NII, or
 - excess of ESBT's AGI over threshold amount



IRC §469 Revisited

- ◆ **Passive Activity – any activity**
 - which involves conduct of a trade or business, and
 - in which the taxpayer does not materially participate
 - rental activities are generally passive
 - working interests in oil or gas property not passive unless owned through an interest which limits taxpayer's liability
- ◆ **Material participation requires involvement on a regular, continuous and substantial basis; determined annually – Seven tests:**
 - 500 hour test;
 - substantial participation (substantially all the participation of all individuals);
 - 100 hour test (more than 100 hours and at least as much as any other individual);
 - significant participation (100 hours in each activity and 500 total all activities);
 - material participation in 5 of last 10 years;
 - personal service activity with material participation for any 3 preceding years;
 - facts and circumstances test (good luck!)



Rental Activities

- ◆ Special rule for real estate professionals - §469(c)(7)
 - applies to taxpayers if
 - more than 1/2 of personal services are performed in real property trades or businesses in which the taxpayer materially participates, and
 - Taxpayer performs more than 750 hours in real estate trades or businesses
 - rental activity treated as nonpassive if taxpayer materially participates
 - each interest in rental real estate treated as separate activity, unless taxpayer elects to group
- ◆ Net investment income includes
 - passive activity within the meaning of §469, and
 - trade or business of trading in financial instruments or commodities



Treatment of Real Estate Professionals ("REP") for §1411

- ◆ Safe Harbor: REP spending more than 500 hours in one or more rental real estate activities (or based on a lookback -- 5 out of last 10 years)
 - gross rental income is derived in ordinary course of T or B, and
 - gain or loss from disposition of such property is deemed to be derived from property used in T or B



Self-Charged Rules

- ◆ Self-charged interest income excluded from NII to extent of taxpayer's share of interest expense allocated from pass-through entity
- ◆ Self-charged rent excluded from NII if self-rental income recharacterized as nonpassive by Reg. §1.469-2(f)(6)



Certain Taxpayers May Regroup Activities

- ◆ Regrouping can only occur during the 1st taxable year beginning after 12/31/12, in which
 - taxpayer meets the applicable income threshold under §1411, and
 - has net investment income
- ◆ Consider disadvantages of grouping upon sale of a portion of the activity
 - can regroup on amended return, but only if:
 - taxpayer was not subject to §1411 on original return, and
 - now subject to NIIT because of a change to the original return.



Sale of Interests in Partnerships and S Corporations

- ◆ Gain from sale is NII to the extent of the net gain as if all property of partnership or S corporation were sold for FMV - §1411(c)(4)
 - if partner or shareholder is passive, all gain subject to NIIT
- ◆ 2012 proposed regulations required complicated series of calculations
- ◆ 2013 final regulations issued, withdrew 2012 proposed regulations, and issued new proposed regulation §1.1411-7
- ◆ Amount of gain or loss disposition of passthrough entity treated as NII is lesser of
 - transferor's gain or loss on disposition of passthrough entity, or
 - transferor's share of "Chapter 1" net gain or loss of entity's §1411 property as if sold by entity



NIIT Adjustment for Sales of Interests in Partnerships and S Corporations

“Line 5e” Adjustment – 2 methods for 2013 returns – 2012 or 2013 Proposed Regulations

- ◆ 2012 Proposed Regulations

Deemed Sale Method:

- Step 1: Hypothetical sale of all of entity’s properties (including goodwill) at FMV
- Step 2: Compute gain or loss on each of entity’s assets (including goodwill)
- Step 3: Allocate gain or loss from each asset to transferor (considering partnership agreement provisions, §704(b), §704(c), §743, etc.)
- Step 4: Determine whether the amount of gain or loss on each asset would be §1411 gain or loss
- Step 5: Determine positive or negative adjustment to NII based on above.



NIIT Adjustment for Sales of Interests in Partnerships and S Corporations (cont'd)

- ◆ 2013 Proposed Regulations
 - Gain for §1411 Purposes:
Lesser of
 - Transferor's gain on the disposition of passthrough entity, or
 - Transferor's allocable share of Chapter 1 net gain from deemed sale of passthrough entity's §1411 property
 - Loss for §1411 Purposes:
Lesser of
 - Transferor's loss on the disposition of passthrough entity, or
 - Transferor's allocable share of Chapter 1 loss from deemed sale of passthrough entity's §1411 property
 - But not less than zero



NIIT Adjustment for Sales of Interests in Partnerships and S Corporations (cont'd)

- ◆ Form 1065 Reporting Requirements (Draft 1065 instructions issued January 3, 2014)
 - Partnership must provide certain information to a partner if the partnership knows, or has reason to know:
 - The partner disposed of an interest in the partnership,
 - The partner materially participates in one or more trades or businesses of the partnership, or
 - The partner does not qualify for the optional simplified reporting method
 - Information to be provided by partnership
 - Partner's distributive share of net gain or loss from deemed sale for FMV of the partnership's property, other than property that relates to trades or businesses in which the taxpayer materially participates
 - If partner qualifies for optional simplified reporting method, partnership may, but is not obligated to, provide the information at the partner's request



Optional Simplified Reporting (2013 proposed regs)

- ◆ Available if:
 - During §1411 Holding Period NII portion of gain or loss is 5% or less than total gain or loss, and total amount of Chapter 1 gain or loss on disposition is \$5M or less, or
 - total amount of Chapter 1 gain or loss on disposition does not exceed \$250,000
- ◆ Ineligible Transferors:
 - Transferor held the interest in the passthrough entity for less than 12 months
 - Transferor transferred §1411 property (other than cash or cash equivalents) or received a distribution of property (other than §1411 property) during the §1411 Holding Period as part of a plan that includes transfer of interest
- ◆ §1411 Holding Period defined as the year of disposition and the transferor's 2 taxable years preceding disposition



Optional Simplified Method

- ◆ Net gain or loss determined by multiplying transferor's Chapter 1 gain on the disposition by a fraction:
 - Numerator: transferor's allocable share during §1411 Holding Period of items taken into account in the calculation of NII
 - Denominator: all distributable share items during §1411 Holding Period



2012 Regulations

Deemed Sale Method – S Corporation is owned 75% by A and 25% by B, and owns the following properties:

- ♦ Step 1 and Step 2 – A and B sell their stock for FMV:

<u>Property</u>	<u>Adjusted Basis</u>	<u>FMV</u>	<u>Gain (Loss)</u>
1	\$10,000	\$50,000	\$40,000
2	\$70,000	\$30,000	(\$40,000)
3	\$20,000	\$40,000	\$20,000
	<hr/>		
	\$100,000	\$120,000	\$20,000

- ♦ Step 3 – Shareholders allocated gain/loss from each asset:

<u>Property</u>	<u>A</u>	<u>B</u>
1	\$30,000	\$10,000
2	(\$30,000)	(\$10,000)
3	\$15,000	\$5,000
	<hr/>	
	\$15,000	\$5,000

- ♦ Step 4 – Determine whether amount of gain or loss on each asset is §1411 gain/loss
- ♦ Step 5 – Determine positive or negative adjustment to NII based on above



2013 Proposed Regulations

- ◆ Example 1

A owns 50% of partnership P which conducts 3 trades or businesses. A sells its interest for \$200,000; A's adjusted basis in partnership interest is \$120,000. Chapter 1 gain \$80,000.

<u>Activity</u>	<u>Basis</u>	<u>FMV</u>	<u>Gain/Loss</u>	<u>A's Gain/Loss</u>
X (Passive)	\$136,000	\$96,000	(\$40,000)	(\$20,000)
Y (Passive)	\$60,000	\$124,000	\$64,000	\$32,000
Z (Non-Passive)	\$40,000	\$160,000	\$120,000	\$60,000
Securities	\$4,000	\$20,000	\$16,000	\$8,000
Total	\$240,000	\$400,000	\$160,000	\$80,000

A's allocable share of gain from §1411 activities is \$20,000; less than Chapter 1 gain of \$80,000

- ◆ Example 2

A materially participates in Activities Y and Z but not X. A's allocable share of §1411 property is (\$12,000). Loss from deemed sale cannot be less than zero. Therefore, no §1411 gain or loss from sale.



Optional Simplified Method

- ◆ A owns 50% of partnership P. In year 1, A sells the interest for \$2M; adjusted basis is \$1.1M. Aggregate net income from P's activities allocable to A for the year of disposition and 2 preceding year:

X (Non-Passive)	\$1,800,000
Y (Passive)	\$10,000
Marketable Securities	\$20,000

- ◆ During §1411 Holding Period, A was allocated:
 - \$30,000 of §1411 income
 - \$1,830,000 of total income
- ◆ Less than 5% ($\$30,000/\$1,800,000$) of total items are §1411
- ◆ Total Chapter 1 gain < \$5M
- ◆ Therefore can use optional simplified method:

$$\text{\$1411 gain: } \frac{30,000}{1,830,000} \times 900,000 = 14,754$$



Information Reporting by Transferor

- ◆ Information Reporting by Transferor
 - Attach statement to tax return for year of disposition including
 - Taxpayer's name and ID#
 - Name and taxpayer ID# of the Passthrough Entity in which interest was transferred
 - Amount of Chapter 1 gain or loss
 - Adjustment to Chapter 1 gain or loss to derive at §1411 gain
 - Also attach a copy of any information provided by the Passthrough Entity to the transferor regarding gain or loss from deemed sale
 - Disclosure requirements vary under 2013 - 2012 regulations. *See instructions.*



CFCs and PFICs

- ◆ General rule – Distributions of earnings and profits from CFC or PFIC is treated as a dividend for NIIT
- ◆ Election under §1.1411-10(g)
 - Income from CFCs and PFICs subject to §1411 tax when included in income for §951(a) or §1293(a) purposes
 - Election applies to current and subsequent years respect to any interest in the CFC or PFIC and is irrevocable
 - Election must be made no later than 1st taxable year beginning after 12/31/13 during which taxpayer
 - includes §951(a) or §1293(a) income; and
 - is subject to §1411 (or would be subject to §1411 if the election were made)



Additional 0.9% Tax on Earned Income (§3101(b)(2))

- ◆ Effective beginning in 2013
- ◆ Applies to wages in excess of
 - \$250,000 in case of joint return
 - \$125,000 in case of MFS
 - \$200,000 in other cases
- ◆ Additional withholding begins when employee medicare wages exceed \$200,000
- ◆ Additional 0.9% tax also applies to self-employed individuals (§1401(b)(2))



Form **8959**

Additional Medicare Tax

OMB No. 1545-0074

Department of the Treasury
Internal Revenue Service

▶ If any line does not apply to you, leave it blank. See separate instructions.
▶ Attach to Form 1040, 1040NR, 1040-PR, or 1040-SS.
▶ Information about Form 8959 and its instructions is at www.irs.gov/form8959.

2013
Attachment
Sequence No. **71**

Name(s) shown on Form 1040

Your social security number

Part I Additional Medicare Tax on Medicare Wages		
1	Medicare wages and tips from Form W-2, box 5. If you have more than one Form W-2, enter the total of the amounts from box 5	1
2	Unreported tips from Form 4137, line 6	2
3	Wages from Form 8919, line 6	3
4	Add lines 1 through 3	4
5	Enter the following amount for your filing status: Married filing jointly \$250,000 Married filing separately \$125,000 Single, Head of household, or Qualifying widow(er) \$200,000	5
6	Subtract line 5 from line 4. If the result is zero or less, enter -0-	6
7	Additional Medicare Tax on Medicare wages. Multiply line 6 by 0.9% (.009). Enter here and go to Part II	7
Part II Additional Medicare Tax on Self-Employment Income		
8	Self-employment income from Schedule SE (Form 1040), Section A, line 4, or Section B, line 6. If you had a loss, enter -0- (Form 1040-PR and Form 1040-SS filers, see instructions.)	8
9	Enter the following amount for your filing status: Married filing jointly \$250,000 Married filing separately \$125,000 Single, Head of household, or Qualifying widow(er) \$200,000	9
10	Enter the amount from line 4	10
11	Subtract line 10 from line 9. If zero or less, enter -0-	11
12	Subtract line 11 from line 8. If the result is zero or less, enter -0-	12
13	Additional Medicare Tax on self-employment income. Multiply line 12 by 0.9% (.009). Enter here and go to Part III	13
Part III Additional Medicare Tax on Railroad Retirement Tax Act (RRTA) Compensation		
14	Railroad retirement (RRTA) compensation and tips from Form(s) W-2, box 14 (see instructions)	14
15	Enter the following amount for your filing status: Married filing jointly \$250,000 Married filing separately \$125,000 Single, Head of household, or Qualifying widow(er) \$200,000	15
16	Subtract line 15 from line 14. If zero or less, enter -0-	16
17	Additional Medicare Tax on railroad retirement (RRTA) compensation. Multiply line 16 by 0.9% (.009). Enter here and go to Part IV	17
Part IV Total Additional Medicare Tax		
18	Add lines 7, 13, and 17. Also include this amount on Form 1040, line 60, (Form 1040NR, 1040-PR, and 1040-SS filers, see instructions) and go to Part V	18
Part V Withholding Reconciliation		
19	Medicare tax withheld from Form W-2, box 6. If you have more than one Form W-2, enter the total of the amounts from box 6	19
20	Enter the amount from line 1	20
21	Multiply line 20 by 1.45% (.0145). This is your regular Medicare tax withholding on Medicare wages	21
22	Subtract line 21 from line 19. This is your Additional Medicare Tax withholding on Medicare wages	22
23	Additional Medicare Tax withholding on railroad retirement (RRTA) compensation from Form W-2, box 14 (see instructions)	23
24	Total Additional Medicare Tax withholding. Add lines 22 and 23. Also include this amount with federal income tax withholding on Form 1040, line 62 (Form 1040NR, 1040-PR, and 1040-SS filers, see instructions)	24

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 59475X

Form **8959** (2013)





The New 3.8% Tax on Net Investment Income -- Ready or Not!

Austin Chapter, Texas Society of CPAs

March 21, 2014

Peggy A. Ugent, CPA
Giordani, Swanger, Ripp & Phillips, LLP

100 CONGRESS AVENUE, SUITE 1440 | AUSTIN, TEXAS 78701

phone 512.767.7100 | *fax* 512.767.7101 | WWW.GSRP.COM

© 2014 Giordani, Swanger, Ripp & Phillips, LLP.