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**Navigating Healthcare Taxes “Closed Captions”
January 2024**

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Hi, I'm Dan Vredevelde, Senior Financial Advisor with Richmond Brothers, and I am here today to provide our community some general education about healthcare taxes.

Did you know that if you are above a certain income threshold, you may get an *additional* Medicare surtax? If you aren't aware of this, make sure to stick with me to learn more!

So, under The Affordable Care Act, the Medicare surtax requires an additional 3.8% tax on investment income for those that are above the threshold.

What is considered investment income? Interest, dividends, long and short capital gains, annuities (however, not those in IRAs or company plans), royalty income, passive rental income, other passive activity income.

What is NOT Investment Income? Wages and self-employment income, active trade/business income, distributions from IRAs, Roth IRAs and employer plans, excluded gain from the sale of a principal residence, municipal bond interest, proceeds of life insurance policies, veterans' benefits, Social Security benefits, gains on the sale of an active interest in a partnership or S corporation.

Here are 5 strategies to help you reduce or potentially eliminate these health care taxes!

1. Identify the surtax income thresholds.

The first step is to know the modified adjusted gross income, or MAGI, thresholds to avoid the 3.8% surtax on net investment income.

For Married Filing Jointly the MAGI threshold is \$250,000

For Individuals it is \$200,000

Married Filing Separately is \$125,000

And Trusts and Estates is \$15,200 to 2024

Trusts and estates are hit particularly hard with the surtax kicking in at a much lower income level.

For more help determining your MAGI and net investment income tax liability, talk to a tax professional or search for Form 8960 at www.IRS.gov

2. **Look at TAXABLE income.**

Taxable income from all sources can push taxpayers over the MAGI threshold and cause their investment income to be subject to the 3.8% surtax.

Income tax-free Roth distributions will NOT affect MAGI.

3. **Understand how much will be taxed.**

The 3.8% surtax is imposed on the lesser of (1) net investment income or (2) the amount of MAGI over the applicable income threshold.

So as the first example, let's say you have \$20,000 in net investment income and your MAGI goes over the threshold by \$50,000. You'll owe the 3.8% tax. But you'll only owe it on the \$20,000 of investment income you have—since it's less than your MAGI overage. Your additional tax would be \$780 ($.038 \times \$20,000$)

As a second example, let's say you have \$20,000 in net investment income, but your MAGI only goes over the threshold by \$15,000. Again, you'll owe the 3.8% tax. But in this case, you'll owe it on the \$15,000 MAGI overage—since it's less than your net investment income. Your additional tax would be \$570 ($.038 \times \$15,000$).

Taxpayers with income below those MAGI levels will NOT be subject to this tax.

4. **Know other health care tax provisions.**

The 3.8% surtax gets the attention, but there is also an additional 0.9% Medicare tax on wages and self-employment income over the MAGI thresholds.

Also, medical expenses must exceed 7.5% of AGI to be deductible. That 7.5% also applies to the medical expense exception to the 10% penalty on early IRA or plan withdrawals.

5. **Discuss these tax planning points with your CPA and advisor.**

You need to know that while IRA and plan distributions are exempt from the surtax, taxable distributions from these accounts can push income over MAGI thresholds.

Roth conversions can be a valuable tool to eliminate future taxable income, especially for taxpayers with significant investment income or a discretionary trust as their IRA beneficiary.

However, conversions could push you above your threshold in the short-term.

Salary deferrals (401(k)s for example) can reduce MAGI for the 3.8% surtax but NOT earned income for the 0.9% additional Medicare tax.

I hope you've found this to be helpful but please make sure to consult with your own tax and legal advisors before taking any action that may have tax consequences. We would be happy to refer you to a local tax preparer should you need one.

Thanks for watching and make sure to share this with a friend who could use this information, too. Here's to being informed, educated and ready to keep our taxes as low as possible!

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