



TAX ALERT

August 17, 2011

New 3.8% Medicare Tax on the Gain on Sale of your Personal Residence

In 2013 the new Medicare tax on gains on the sale of personal residences becomes effective with the following exceptions:

1. a seller can exclude up to \$250,000 (\$500,000 if married filing jointly) of gains on the sale of a personal residence.
2. the tax will only be assessed if the seller's adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly).

Taxpayers pay the 3.8% Medicare tax on the lesser of:

1. the taxable gain on the sale in excess of the \$250,000 (\$500,000 if married filing jointly) exclusion or
2. the excess of their AGI over \$200,000 (\$250,000 if married filing jointly).

Example 1:

A married couple has a \$150,000 AGI. They sell their house for a \$450,000 profit. Since their gain is less than \$500,000 and their AGI is less than \$250,000, the 3.8% tax is not applicable because they did not satisfy both of the requirements listed above.

Example 2:

A married couple has an AGI of \$300,000. They sell their home for a \$600,000 profit. Since the excess of their AGI over \$250,000 (\$50,000) is less than their taxable gain on the sale in excess of their \$500,000 exclusion (\$100,000), they pay a 3.8% tax on \$50,000 or \$1,900.