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HIGHLIGHTS OF THE AMERICAN TAXPAYER RELIEF ACT OF 2012

NEW TAXES DUE TO 2010'S HEALTH CARE REFORM LEGISLATION:

In addition to the various provisions discussed above, some new taxes also took effect Jan. 1, 2013 as a result of 2010's health care reform legislation.

Additional hospital insurance tax on high-income taxpayers. The employee portion of the hospital insurance tax part of FICA, normally 1.45% of covered wages, is increased by 0.9% on wages that exceed a threshold amount. The additional tax is imposed on the combined wages of both the taxpayer and the taxpayer's spouse, in the case of a joint return. The threshold amount is \$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return, and \$200,000 in any other case.

For self-employed taxpayers, the same additional hospital insurance tax applies to the hospital insurance portion of SECA tax on self-employment income in excess of the threshold amount.

Medicare tax on investment income. Starting Jan. 1, Sec. 1411 imposes a tax on individuals equal to 3.8% of the lesser of:

- the individual's net investment income for the year, or
- the individual's modified adjusted gross income (AGI) exceeds the threshold amount.

The threshold amount is \$250,000 for married individuals filing a joint return and surviving spouses; it is \$125,000 for married taxpayers filing separately, and for other individuals it is \$200,000. For estates and trusts, the tax equals 3.8% of the lesser of undistributed net investment income or AGI over the dollar amount at which the highest trust and estate tax bracket begins.

Net investment income means investment income reduced by deductions properly allocable to that income. Investment income includes income from interest, dividends, annuities, royalties, and rents, and net gain from disposition of property, other than such income derived in the ordinary course of a trade or business. However, income from a trade or business that is a passive activity and from a trade or business of trading in financial instruments or commodities is included in investment income.

Medical care itemized deduction threshold. The threshold for the itemized deduction for unreimbursed medical expenses has increased from 7.5% of AGI to 10% of AGI for regular income tax purposes. This is effective for all individuals, except, in the years 2013–2016, if either the taxpayer or the taxpayer's spouse has turned 65 before the end of the tax year, the increased threshold does not apply and the threshold remains at 7.5% of AGI.

Health flexible spending arrangement. Effective for cafeteria plan years beginning after Dec. 31, 2012, the maximum amount of salary reduction contributions that an employee may elect to have made to a flexible spending arrangement for any plan year is \$2,500.

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