



HORIZON LAND SERVICES LLC

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CAPITAL GAIN TAXES GOING UP, WAY UP “58 PERCENT INCREASE IN CAPITAL GAIN TAXES IS COMING”

TAX INCREASE #1 - 20 PERCENT CAPITAL GAIN TAX IN 2011

On January 1, 2011, the capital gain tax reduction that was signed into law by President Bush under the Tax Increase Prevention and Reconciliation Act will “sunset.” The tax rate will revert from the current 15 percent rate back to the former 20 percent capital gain tax rate that was in effect prior to 2003.

TAX INCREASE #2 - 3.8 PERCENT MEDICARE TAX IN 2013

Beginning in 2013, the national health care reform legislation that became law in March, 2010, imposes a new 3.8 percent tax on certain investment income. The new tax will apply to single filers with incomes over \$200,000 and married taxpayers with incomes over \$250,000. Under the law, the investment tax provisions in Chapter 2A of the Internal Revenue Code are placed under the heading “Unearned Income Medicare Contribution.”

In general, this new Medicare tax will apply to investment income that is subject to income tax, which includes capital gains. Pursuant to IRC Section 1402 (C)(1)(A)(iii), the investment income to which this new tax applies includes “net gain” (to the extent taken into account in computing taxable income) attributed to the disposition of property that qualifies as a capital asset under Section 1221 (capital gains), as well as gains on other property that are considered part of ordinary income. Also of relevance for rental property owners, this new tax applies to a real estate investor’s rental income if they have income above the \$200,000/\$250,000 income thresholds.

The net effect of both capital gain tax increases is a new 23.8 percent tax rate for higher earners—the highest rate for long-term capital gains since 1997. The Joint Committee on Taxation estimates the new Medicare tax on investments will cost taxpayers over \$30 billion annually. Additionally, the modified adjusted gross income threshold at which this Medicare tax will apply will not be indexed for inflation, which means an increasing number of taxpayers will be snared by this tax provision.

Overall, the economic impact of these tax increases will be felt by the very investors who help promote long-term economic growth. In 2007, taxpayers with incomes greater than \$200,000 reported 47 percent of all interest income, 60 percent of all dividends and an amazing 84 percent of all capital gains.

THE COMING TAX INCREASES - A COMPARISON

	Current	January 2013
Conventional Short-Term	35.0%	43.4%
Conventional Long-Term	15.0%	23.8%
AMT Short-Term	28.0%	31.8%
AMT Long-Term	15.0%	23.8%

A SOLUTION AND WAY TO DEFER TAXES - 1031 EXCHANGES

Since 1921, 1031 tax deferred exchanges have been a proven tax saving strategy that helps real estate investors improve their investment position through the ability to not recognize Federal or state capital gain taxes.

Contact Pamela Michaels, Esq. of Asset Preservation, Inc., the 1031 experts to learn more at 866.317.1031 or pmichaels@apiexchange.com.