

# Net Investment Income Tax

January 2019

# What is the Net Investment Income Tax?

- **A 3.8 percent Net Investment Income Tax (NIIT) applies to individuals, estates, and trusts that have net investment income above applicable threshold amounts.**
- **Reported on Form 8960, which is Out of Scope for Tax-Aide**
- **Automatically figured by TaxSlayer**

# Net Investment Income Tax

- **In the case of an individual, the NIIT is 3.8 percent on the lesser of:**
  - the net investment income, or
  - the excess of modified adjusted gross income over the following threshold amounts:
    - \$250,000 for married filing jointly or qualifying widow(er) with dependent child
    - \$125,000 for married filing separately
    - \$200,000 in all other cases
- **There is also a 0.9% Medicare tax applied to earned income at those income threshold amounts (OOS)**

# Net Investment Income Defined

- **In general, net investment income for purpose of this tax, includes, but isn't limited to:**
  - **interest, dividends, certain annuities, royalties, and rents (unless derived in a trade or business in which the NIIT doesn't apply),**
  - **income derived in a trade or business which is a passive activity or trading in financial instruments or commodities, and**
  - **net gains from the disposition of property (to the extent taken into account in computing taxable income), other than property held in a trade or business to which NIIT doesn't apply.**

# Net Investment Income & MAGI

**Modified adjusted gross income (MAGI), for purposes of the NIIT, is generally defined as:**

**AGI for regular income purposes increased by the foreign earned income exclusion.**

**For individual taxpayers who haven't excluded any foreign earned income, their MAGI is generally the same as their regular AGI.**

# Net Investment Income & TaxSlayer

- **Example 1: Jane, \$15,000 Social Security income. Cashed out \$220K IRA to buy a new home. This situation is in scope.**
- **She forgot to mention her \$20,000 interest from her CDs. When added to the return, this puts her over \$200,000 threshold, and causes NIIT to be charged on the \$20,000 interest. Her return is now out of scope.**

# Net Investment Income & TaxSlayer

- **Example 2: Joe and Jill, \$220K retirement income and \$40,000 interest income**
- **The threshold amount for MFJ is \$250,000. They have \$260,000 in income. The \$10,000 over the threshold amount will be subject to the NIIT.**
- **This return is out of scope.**

# Net Investment Income & TaxSlayer

- **For TPs subject to NIIT, TS will automatically calculate the NIIT. You won't see it until you look at the return using View/Print.**
- **TPs with high incomes usually have investment income.**
- **Screen for possible NIIT for high income TPs, to ensure return is in scope.**



# Net Investment Income Tax

Questions...



Comments...

