



Other Individual Taxes

**Tax and
Business Update**

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3.8% Net Investment Income Tax

Individuals are subject to a net investment income tax equal to 3.8% of the lesser of:

- 1) Net investment income (NII) or
- 2) The excess (if any) of adjusted gross income (AGI) over the threshold amount.

Net Investment Income Tax—AGI Threshold	
Filing Status	Tax imposed when AGI exceeds
Married filing joint (MFJ) and qualified widow(er) (QW)	\$ 250,000
Single, Head of Household (HOH)	200,000
Married filing separate (MFS)	125,000

Note: These amounts are not adjusted for inflation.

Net Investment Income

NII is the sum of the following, reduced by allowable deductions:

- 1) Gross income from interest, dividends, annuities, royalties, and rents, unless they are derived in the ordinary course of a trade or business that is not a passive activity.
- 2) Other gross income derived from a trade or business that is a passive activity.
- 3) Net gain attributable to the disposition of property other than property that is not subject to the NII tax.

Note: A passive activity is a trade or business in which the individual does not materially participate. Usually, an individual must work in the business

more than 500 hours during the year to materially participate.

Additional Medicare Tax

Wages, compensation and self-employment (SE) income are subject to the 0.9% additional Medicare tax to the extent they exceed the following thresholds.

Additional Medicare Tax—Earnings Threshold	
Filing Status	Tax imposed on earnings over:
MFJ	\$ 250,000
Single, HOH, QW	200,000
MFS	125,000

Note: Threshold for SE earnings is reduced (but not below zero) by any wages subject to the additional Medicare tax.

Note: Any additional Medicare tax paid by self-employed individuals does not qualify for the deduction for one half of SE tax.

Alternative Minimum Tax

Individuals must compute their income tax under both the regular income tax and the alternative minimum tax (AMT) rules. They pay the greater of the two amounts.

To arrive at alternative minimum taxable income (AMTI), taxable income under the regular tax rules is adjusted for adjustments and exclusions. Then an AMT exemption amount is subtracted. The AMT exemption amount phases out at higher levels of AMTI.

AMT Exemption Amounts		
Filing status	Amount	
	2016	2017
Single, HOH	\$ 53,900	\$ 54,300
MFJ, QW	83,800	84,500
MFS	41,900	42,250

AMT Tax Rates			
Tax Rate	Filing Status	Rate Applies to AMTI of:	
		2016	2017
26%	MFJ, Single, HOH, QW	\$0–186,300	\$0–187,800
	MFS	\$0– 93,150	\$0– 93,900
28%	MFJ, Single, HOH, QW	\$186,301 and over	\$187,801 and over
	MFS	\$93,151 and over	\$93,901 and over

AMT Adjustments and Preferences

AMT adjustment items usually require separate AMT computations and are substituted for the amounts computed for regular tax purposes. These can result in either positive or negative adjustments to regular taxable income in arriving at AMTI.

AMT preference items result in amounts added back to regular taxable income to arrive at AMTI.

Adjustments and preferences that merely change the timing of when an item is recognized are *deferral items*. Items that cause a permanent difference between regular and AMT taxable income are *exclusion items*.

Notes

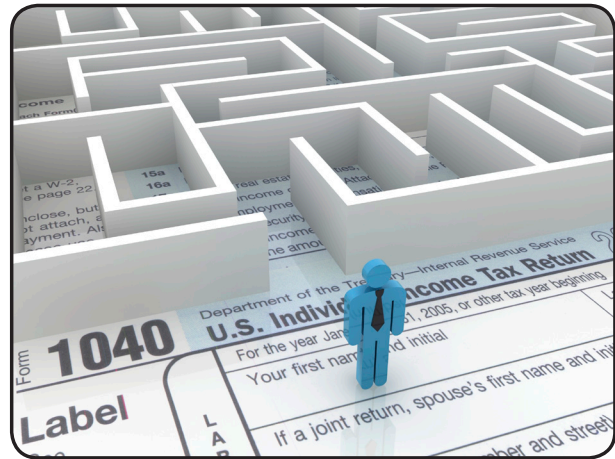
Common AMT Adjustments and Preferences

Deferral items:

- Depreciation.
- Exercise of incentive stock options (ISOs).
- Gains or losses on disposition of property.
- Intangible drilling costs (IDC).
- Passive activities.

Exclusion items:

- Gain from sale of qualified small business stock.
- Interest income from private activity bonds. Does not include interest on bonds issued in 2009 or 2010.
- Itemized deductions:
 - Medical expenses over 7.5% but less than 10% of AGI (if taxpayer or spouse was age 65 or older at year-end).
 - Miscellaneous deductions.
 - Mortgage interest not used to buy, build or improve a home.
 - Mortgage interest on a second home that is a boat or RV.
 - Property taxes.
 - State and local income or general sales taxes.
- Personal exemptions.
- Standard deduction.
- Tax refunds.



The handout is designed to provide accurate information regarding the subject matter covered. However, before completing any significant transactions based on the information contained herein, please contact us for advice on how the information applies in your specific situation.
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