

Income Insights: The Net Investment Income Surtax

Income Insights is a series designed to quickly describe important income tax concepts for advisors and their clients.

Authors	Date	Topic
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The Net Investment Income Surtax

The Net Investment Income (NII) surtax was introduced by the Affordable Care Act (ACA) of 2010. The surtax is designed to help fund health care reforms under the ACA and primarily affects higher-income earners.

The 3.8% tax applies if you have NII and your income exceeds specific thresholds. It's calculated by multiplying 3.8% on the lesser of (a) your NII or (b) the amount by which your modified adjusted gross income (MAGI) exceeds the applicable threshold. The NII includes taxable income derived from interest, dividends, capital gains, rental income, and royalties. For individuals, the surtax applies when MAGI exceeds:

- \$200,000 for single filers
- \$250,000 for married couples filing jointly
- \$125,000 for married individuals filing separately
- \$200,000 for heads of households

These amounts are not indexed for inflation.

High-income investors should be aware that the NII surtax adds an additional layer of tax liability, and they may want to seek to reduce or defer their NII to manage the impact of the surtax on after-tax returns.

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