

From: Ed DeVilbiss
Sent: 2/6/2016 12:27:08 PM
To:
Cc:
Subject: Taxes 2016

Friends,

Thankfully I still have friends after sending an email several days ago with false tax information. Several of you commented on individual items, but this reply is more comprehensive. Thank you friends for bailing me out as well as quickly sounding the alarm that my email had false information. ED

Hi Ed,

Hope this finds you and Carol well & healthy! I had seen this info earlier and sent it to our accounting firm for their comments.....see below

Begin forwarded message:

Here are my thoughts on these so-called facts. I went through the effort of specifically responding to each point as a fun exercise in researching what the actual law says. I hope this helps. If you have any other questions let me know.

- 1) "Here is what happened, quietly, on January 1, 2016"
 - a. The Affordable Care Act and its associated taxes went into effect on January 1, 2013. So it's not clear to me why the author is referring to January 1, 2016 in their email unless they mean that the tax law simply remained in effect on January 1, 2016.
- 2) "Medicare tax went from 1.45% to 2.35%"
 - a. It's true that the Medicare tax went up pursuant to Obamacare. The base Medicare tax on employees did not change. It was 1.45% then and it is now. What did change is that employees now have to pay a 0.9% (.009) Medicare surtax on wages in excess of the following thresholds (\$250,000 married filing joint or \$200,000 single). So what the author is saying is true except for the fact that they did not mention the thresholds.
- 3) "Top Income tax bracket went from 35% to 39.6%"
 - a. True, but this went into effect for the 2013 tax year, not starting in 2016.
- 4) "Top Income payroll tax went from 37.4% to 52.2%"
 - a. Not sure what the author is referring to. An employee pays social security taxes at a rate of 6.2% from their first dollar earned up to the ceiling which is \$118,500 for 2016. They also pay Medicare taxes at 1.45% on every dollar earned. Employees also have estimated federal and state withholding taxes taken from their paycheck, but that really relates back to their individual

income taxes and whatever bracket they might fall into as referred to in number 3. The percentages stated don't really make much sense.

5) "Capital Gains tax went from 15% to 28%"

a. In recent prior history, capital gains were generally taxed at 20%. Under GW Bush, the rate was reduced to 15%. Under Obamacare, the rate was changed back to 20% only if the taxpayer's income is otherwise in the 39.6% tax bracket (taxable income greater than \$466,950 for MFJ or \$415,050 single in 2016). If the taxpayer is not in the 39.6% tax bracket, then the rate is still 15%. (The rate is zero for people in the 10 or 15% tax bracket). The 28% capital gain tax rate applies to the long-term capital gain rate on collectibles such as coins, antiques and similar items. The 28% rate on collectibles has been in effect for quite a while.

6) "Dividend tax went from 15% to 39.6%"

a. Prior to the GW Bush tax law changes, dividends were taxed the same as ordinary income which is to say that whatever tax bracket you fell into otherwise, that was your rate on dividends. Under GW Bush, "qualified" dividends were tax at the same rate as long-term capital gains (originally 15%, but now subject to the same rules I referred to in number 5). Qualified dividends are basically any kind of dividend you would receive from a standard publically traded company. Certain "non-qualified" dividends could in theory be taxed at 39.6% if the taxpayer was otherwise in that bracket, but the average person would likely not be taxed in that manner.

7) "Estate tax went from 0% to 55%"

a. Throughout US history estates have been taxed at various rates with various amounts exempted from taxation. For whatever reason, the estate tax was in fact zero for the 2010 tax year only. In 2001 the top rate was 55% on taxable estates over \$675,000. For the tax years 2013 – 2016 the top rate is 40% on taxable estates over approximately \$5,000,000. The author's statement that estate taxes went from zero to 55% doesn't seem very accurate.

8) "A 3.5% Real Estate transaction tax was added"

a. While this might be true in some particular local jurisdiction somewhere, there are no "real estate transaction taxes" applied at the federal level.

9) The most notable thing about Obamacare in my opinion which the author has apparently left out is that there is now a "net investment income tax" (also known as a Medicare surtax) on "net investment income" (rents, dividends, capital gains, royalties) at the rate of 3.8% on net investment income if a taxpayer's total income is over the threshold of \$250,000 for MFJ or \$200,000 filing single. This is the first time in history that "unearned" income has been subject to these Medicare taxes. Now that the law is on the books, there are no guarantees that the threshold for the taxes won't go