

Calculating 3.8% Net Investment Income Tax (NIIT)

The tax applies to the lesser of MAGI exceeding the tax threshold or the total NII

Modified Adjusted Gross Income (MAGI) amount exceeding the tax threshold

Tax thresholds:

Single or head of household	\$200,000
Married filing jointly	\$250,000
Married filing separately	\$125,000

MAGI = Adjusted Gross Income (AGI) + certain excluded adjusted foreign earned income. Includes, among other things, the following:

- > Wages, compensation (including distributions from nonqualified deferred compensation plans), alimony, taxable Social Security income, etc.
- > Distributions from IRAs and qualified plans and nonqualified distributions from Roth IRAs and 529 college savings plans
- > Distribution of earnings from nonqualified annuities
- > Net gain from the sale/disposition of a property (except for excluded gain, e.g., certain gain on the sale of a principal residence)
- > Taxable interest and dividends
- > Rents and royalties
- > Etc.

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Or

Net Investment Income (NII)

Investment income (as defined below) reduced by those deductions properly allocable to the investment income

Net Investment income includes:

- > Taxable interest, dividends, rents, royalties
- > Distributions of earnings from nonqualified annuities (not held in an IRA or qualified plan)
- > Net gain from the sale/disposition of certain property. Generally, does not include gain on property sold by an active business or gains excluded from income
- > Substitute dividend/interest (payments in lieu of dividends)
- > Income from a trade or business that is considered a passive activity (under the passive loss rules) or is trading in financial instruments or commodities/related derivatives

Net Investment Income does not include:

- > Wages, compensation, Social Security income and nonqualified deferred compensation distributions
- > Qualified retirement plan distributions
 - IRAs, 401(k) plans, 403(b) plans and pensions
- > Tax-exempt income
 - Municipal bond interest
 - Excluded gain on the sale of a principal residence
 - Life insurance death benefit
- > Income from a trade or business that is not considered a passive activity (under the passive loss rules) or is not trading in financial instruments or commodities/related derivatives
 - Note: Income from working capital investments does not fall within this exception
- > Self-employment income for SECA tax purposes
- > Inheritance, gifts and distributions from 529 plans

Untangling Tax Thresholds: 2013 Tax Year

Single =  Joint = 

