New tax law could hurt certain wealthy homeowners

By Editor Test *Mon, Jan 7, 2013*

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A realtor and lawyer in Greenwich, Connecticut has analyzed the residential properties in his affluent community and found that "a third to a half of the houses could be subject to the new fiscal cliff and Medicare investment tax increases."

"Unlike the much publicized $450,000 threshold for higher capital gains taxes in the fiscal cliff bill, the new 3.8% Medicare investment tax kicks in at $250,000 for a couple," claims attorney Mark Pruner. "This is on top of the prior years' 15% capital gains tax so couples are looking at an 18.8% tax, and if their gain exceeds $450,000 then their tax rate will be 23.8%."

According to Pruner, those who have refinanced may find that after they pay the mortgage, the capital gains tax, the Medicare investment tax, the Connecticut conveyance tax, real estate commissions and legal fees, the funds that they were depending on for retirement are substantially smaller than they expected and could even be a loss.

For people who have retirement bonuses and sell their property in the same year, the problem will be worse if those onetime income events kick them into a higher tax bracket for that year, he said.

The law does provide a $500,000 capital gains exemption for married couples selling their primary residence, but for single people, including widows who stay in their home, the exemption is only $250,000 and the taxes kick in at lower income limits, Pruner asserts. If the property is not their primary residence then there is no exemption and the full 23.8% rate may apply.

The sale of highly appreciated real estate has grown "more complex with the addition this year of the new fiscal cliff tax and the Medicare investment tax," Pruner said in a press release.