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Health-Care Reform - Fact vs. Fiction

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Health-Care Reform--Fact vs. Fiction

The health-care reform legislation that passed earlier this year was incredibly broad in scope, so it's probably not surprising that there's a good deal of confusion, and a number of false or misleading claims being circulated. Here's the truth behind two of the claims that have gained the most traction lately.

The claim: Beginning in 2011, you'll be taxed on the value of your employer-provided health insurance



There are several e-mail campaigns making their way around right now claiming that, beginning in 2011, taxable income on Forms W-2 will be increased to reflect the value of employer-provided health insurance. A typical e-mail warns: "You will be required to pay taxes on a large sum of money that you have never seen. Take your last tax form and see what \$15,000 or \$20,000 additional gross does to your tax debt. That's what you'll pay next year. For many it also puts you into a new higher bracket so it's even worse. This is how the government is going to buy insurance for the 15% who don't have insurance and it's only part of the tax increases."

The facts:

While it's true that, beginning in 2011, the health-care reform legislation requires employers to begin reporting the cost of employer-provided health-care coverage on an employee's Form W-2, the cost is included for informational purposes only, to show employees the value of their health-care benefits. The amount reported is not included in income, and will not affect your tax liability.

The claim: Beginning in 2013, a new federal sales tax will apply to the sale of a home

The claim is that, beginning in 2013, all real estate sales will be subject to a new 3.8% federal sales tax. The e-mails making this claim generally contain some variation of the following text: "Under the new health-care bill--did you know that all real estate transactions are now subject to a 3.8% sales tax? The bulk of these new taxes don't kick in until 2013 ... If you sell your \$400,000 home, there will be a \$15,200 tax."

The facts:

This claim, though inaccurate, has a basis in fact. There's no federal sales tax being imposed on the sale of homes. But, beginning in 2013, the health-care reform legislation does impose a new 3.8% Medicare contribution tax on the net investment income of high-income taxpayers (individuals with adjusted gross income (AGI) exceeding \$200,000, and married couples filing joint returns with AGI exceeding \$250,000). Net investment income will include gain on the sale of a home. However, the tax will not apply to any gain from the sale of a principal residence that is excluded from income (individuals, if they qualify, can generally exclude the first \$250,000 in gain from the sale of a principal residence; married couples filing joint returns can generally exclude up to \$500,000). That means that in most cases, at least where a principal residence is concerned, the 3.8% tax would kick in only if your AGI exceeds the threshold above, and only if profit on the sale of the home exceeds \$250,000 (\$500,000 for married couples filing jointly).





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