What is the net investment income tax?

The investment income tax is surtax of 3.8 percent in addition to the regular income tax that certain high income taxpayers would otherwise owe on such income. The tax is imposed on the *lesser* of the following amounts:

(1) Net investment income; or

(2) The excess (if any) of (i) the taxpayer’s modified adjusted gross income (MAGI) for the year over (ii) the applicable threshold amount.[[1]](#footnote-1)

The applicable threshold amount for single taxpayers is $200,000. For married taxpayers filing a joint return, the applicable threshold amount is $250,000.

*Example*: In 2015, Erica and Mickey a married couple filing jointly have an AGI of $400,000 including net investment income of $125,000. The applicable threshold amount for a married couple filing jointly is $250,000.

Applying the formula, the 3.8 percent net investment tax is imposed on the lesser of:

1. Net investment income of $125,000; or

2. The excess of (i) AGI of $400,000 over (ii) the applicable threshold amount of $250,000, or $150,000.

Because the lesser of the two amounts is the $125,000 of net investment income, the 3.8 percent net investment income tax is imposed on the entire amount of net investment income.

*Example*: Assume in 2016, Erica and Mickey have AGI of $300,000 including net investment income of $125,000 (the same amount as it 2014).

Applying the formula, the 3.8 percent net investment tax is imposed on the lesser of:

1. Net investment income of $125,000; or

2. The excess of (i) AGI of $300,000 over (ii) the applicable threshold amount of $250,000, or $50,000.

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In this case, the lesser of the two amounts is the excess of AGI over the applicable threshold amount. Thus, in spite of having net investment income of $125,000, only $50,000 is subject to the 3.8 percent net investment income tax.

Finally, certain trusts and estates are also subject to the net investment income tax.

1. IRC Sec. 1411(a)(1). [↑](#footnote-ref-1)