

[Maximizing Your Wealth After Health Care Reform](#)

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The health care legislation recently passed by Congress and signed by the President, the [Patient Protection and Affordable Care Act](#), imposes an additional Medicare tax of 3.8% on “net investment income” or the excess of modified adjusted gross income over a “threshold amount”. The “threshold amount” is \$250,000 for married taxpayers and \$125,000 for single taxpayers. (It is \$200,000 for other taxpayers – trusts, for example).

“Net Investment Income” includes interest, dividends, capital gains, rents, royalties and passive activity income. It does not include income from an active trade or business, or a source of income (interest or dividends, for example) to the extent derived from an active trade or business.

One should not engage in [long term planning](#) for the sole purpose of avoiding a possible 3.8% tax over a certain income threshold. However, if there are choices concerning long term planning, the following techniques might be used to minimize the impact of the Medicaid tax on net investment income in the long term:

- Maximize contributions to §401(k), §403(b), §457 and [IRA retirement plans](#).
- Where appropriate (particularly small business owners and professionals), consider anew the feasibility of a defined benefit or cash balance pension plan. (A defined benefit or cash balance plan combined with a §401(k) plan often maximizes benefits).
- Municipal Bonds
- Tax Deferred Annuities
- Life Insurance
- [Roth IRA conversions](#)
- Roth IRA distributions

These approaches will minimize modified adjusted gross income and will therefore tend to keep income under the “threshold amount”, thus avoiding the Medicaid tax.

Clients who have questions concerning how the new legislation affects their investments and their wealth should call [Northbrook and Chicago business attorneys](#), Kaufman Law Group, at (847) 521-4900.

The Chicago business and estate planning lawyers at Kaufman Law Group in Northbrook, Illinois serve clients throughout Illinois, including the Chicagoland communities of Arlington Heights, Buffalo Grove, Deerfield, Des Plaines, Elk Grove Village, Evanston, Glenview, Gurnee, Highland Park, Lake Forest, Libertyville, Lincolnshire, Niles, Northbrook, Oak Brook, Palatine, Schaumburg, Skokie, Waukegan, Wheeling, Winnetka, Wheeling, and all cities within Cook County, DuPage County (Wheaton, Naperville), Lake County, Kane County (Geneva, Aurora, Elgin), and McHenry County.

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