2013 Tax Report and the New Obamacare Taxes

I finished my taxes for the year. It seems I become “less successful” at keeping my taxes low each year. It’s true what they say- the only thing worse than paying taxes is not having to pay taxes. Last year I was able to brag that I paid taxes at a lower rate than Mitt Romney. Unfortunately, that’s no longer true (unless something has changed in Mitt’s tax situation.)

2013 was my first year at “peak earnings” as an attending. I made partner midway through 2012, which comes with a significant raise. It also means this is the first year where I have paid all of my own payroll tax for the whole year. That’s painful, especially when combined with the new Obamacare Taxes. I know there have been so many tax increases in the last four years or so that it is hard to keep track of them all. I found the two Obamacare taxes to be especially painful, once I finally realized how they are assessed. Like most years, I have to learn a new schedule or two, and this year it was Forms 8959 and 8960. But before we get to the Obamacare taxes, let’s do a report on my taxes for the year.

The Damage

Last year I paid 9% in Federal, 3.6% in Payroll (Social Security and Medicare), and 2.9% in State Income Taxes for 15.5% total. This year, thanks to a higher income, I did a lot worse. I paid 12% in Federal Income Tax, 6.4% in Payroll Taxes (for an additional challenge, you can figure out my my gross income using nothing but that figure), and 3.4% in State Income Tax for a grand total of 21.8%. Ouch. That’s over 6% more than last year, a lot of which is payroll tax. Thanks to
our progressive tax code, my income was 45% higher, but my total tax burden was 70% higher than in 2012. Yea, it’s a first world problem, but it’s still painful to write tax checks for amounts similar to your entire income as a resident.

The Deductions

I managed to deduct quite a bit of money. The most valuable deductions, of course, are business expenses like malpractice insurance, CME costs, and the costs of running The White Coat Investor, LLC. You don’t have to pay any payroll tax (or any of the additional Obamacare taxes) on those. I’m not going to count those, however, since almost all of them truly are business expenses I wouldn’t otherwise have without a business. I was able to deduct 29% of my income in “above the line deductions” and another 16% in itemized deductions and exemptions. Thus my taxable income was 55% of my income net of business expenses. My biggest deductions were retirement contributions, charitable contributions, self-employment taxes, mortgage interest, health insurance, HSA contributions, property taxes, and state income taxes. The state income tax deduction would have been higher, except this year I realized that Utah doesn’t require quarterly estimated payments, so I actually paid my entire 2013 state income tax bill in April 2014. I’ll get that deduction next year.

The New Obamacare Taxes

Many of you may not understand how the two new “Obamacare taxes” work. If your total income (1040 line 22) is less than $200K ($250K married), you don’t have to pay them. For some reason I was under the impression that your taxable income (1040 line 43) had to be over $250K married. Since mine was well below that, I thought I would be exempt. Not so. There are really two Obamacare taxes, one of which is an additional Medicare tax and one of which is an additional
dividend/capital gains tax. The first, and easiest to understand, is the 0.9% on all income over $200K. It is calculated on IRS Form 8959 “Additional Medicare Tax.” Basically, take your total income (1040 line 22) and subtract $200K and multiply the result by 0.9% to get your “Additional Medicare Tax. It’s slightly more complicated if you’re self-employed (you get to exclude half of the self-employment tax from income), but essentially the same thing. That cost me a little over $1000 this year. That’s not too bad, unless you also add in the 30% jump in health insurance premiums I saw thanks to PPACA requirements.

The other “Obamacare Tax” is the 3.8% assessed on all investment income for those with a Modified Adjusted Gross Income (MAGI) above $200K ($250K married.) Now, my MAGI is much less than my total income (you get to subtract some of my largest deductions like retirement contributions, health insurance, and HSA contributions from your total income to get your MAGI) but unfortunately (or perhaps fortunately), my MAGI is still more than $250K, so I have to pay this tax. This is done on Form 8960 “Net Investment Income Tax.” Basically, I get to take all my investment income (interest, dividends, capital gains) and multiply it by 3.8%. That cost me another couple hundred bucks. Luckily, I invest in a very tax efficient manner. The only reason I ended up paying much at all was simply due to some windfalls—one from my old malpractice insurer and the interest from the money my residency program withheld inappropriately for payroll taxes for a couple of years. This tax is one more reason to moderately to highly paid doctors to invest very tax-efficiently in their taxable account, especially combined with the increase in qualified dividend/long-term capital gains rates from 15% to 20% for those in the very top bracket. Instead of the capital gains brackets being 0% and 15%, they’re now 0%, 15%, 18.8%, and 23.8%.

Another Painful Discovery
I also discovered that my rental property in Virginia requires me to pay Virginia state taxes on that income. I get to deduct what I pay on my Utah state taxes, so that isn’t so bad. But having to deal with the Virginia state tax forms again is a huge pain compared to Utah’s very simple layout. I ended up paying Turbotax $45 so that I could pay Virginia $18. Yet another reason not to be an absentee landlord.

Another tax year is come and gone. Money made, taxes paid, and lessons learned. Income is always good, but it certainly becomes less good as it gets larger! What did you learn while doing your taxes this year? Comment below!

What percentage of your total income did you pay in Federal, Payroll, and State taxes?

- o <5%
- o 6-10%
- o 11-15%
- o 16-20%
- o 21-25%
- o 26-30%
- o 31-35%
- o 36-40%
- o >40%

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Did you have to pay "Additional Medicare Tax?"

- o Yes
- o No
- o Not sure, but can't resist answering
Did you have to pay "Net Investment Income Tax?"

- ○ Yes
- ○ No
- ○ I have no idea