

QUALITY TAX & BUSINESS PARTNERS

Putting the Financial Pieces of Your Life Together

INVESTMENT INCOME – STOCKS, BONDS & DIVIDENDS

Investment income comes in a variety of forms, many of which have special tax treatments. Interest income is generally taxed at the same rate as employment earnings, but municipal bond interest is exempt from Federal tax. Even better, municipal bonds issued within Massachusetts are exempt from both Massachusetts and Federal tax. Dividends are taxed at the capital gains rate, which is lower than the regular tax rate. Capital Gains are the gain or loss on the sale of investment property. Gains on property held more than one year are long-term gains taxed at the lower capital gains rate. Short term gains are taxed at the regular tax rate at the Federal level, and at a very high 12% rate by Massachusetts. Confused yet? Let us fit the pieces of the puzzle together for you!



Unlike interest and dividends you have some control over timing of this income if you can specify when the sale will be made. Gains from one sale can also be offset by losses from another. You can avoid the tax altogether by giving appreciated stock as a charitable contribution. You get a charitable deduction for the market value of the stock but since you didn't sell it you have no capital gain. Employee stock options, restricted stock and Employee Stock Purchase Plan (ESPP) stock can generate both employment income and investment income with different tax treatments. Sales of ESPP shares in particular should be examined closely since using just the information from the broker's statement often results in double taxation of some income.



The Affordable Care Act instituted a new 3.8% tax on net investment income for higher income taxpayers. This is not a simple tax. The IRS regulations for this tax take up 217 pages with a big chunk of that defining what income is subject to the tax (retirement plan investment income is not, rental income is). Tax planning becomes even more important for those who may be subject to this tax. Let Integrity Tax and Business Partners take the guess work out of these complex tax laws. Contact us today for a consultation!