GOOD
ATTORNEYS AT LAW, P.A.
ARI B. GOOD, JD LLM

7935 Airport Rd N, Naples, FL 34109
Tel: 239.216.4106
Fax: 239.216.4107
Email: info@goodattorneysatlaw.com
Web: www.goodattorneysatlaw.com

NET INVESTMENT INCOME EXPLAINED

A basic understanding of "net investment income" is essential in exploring clients' existing tax obligations, and, of course, what they might have to pay in the future. The Health Care Reform legislation in particular imposes a Medicare Tax on net investment income, which falls more generally into the category of "unearned" income at the heart of the tax debate. The following is a basic analysis of the components and calculation of net investment income. Of course, nothing replaces tracking the Internal Revenue Code and the associated regulations, and there are a number of elections and exclusions that, as usual, modify the general rules. I nevertheless hope you find the following helpful as a get started guide.

In plain English, net investment income takes interest income, dividends and a modified calculation of capital gains in coming up with the family of "investment income". Certain expenses are deductible from investment income (i.e. "investment expenses") including investment interest (such as margin interest in securities accounts), investment services (such as advisory services) and other enumerated types of investment expenses. All of these ingredients combine to form the taxable result: net investment income. For those of you who don't care for algebra, skip down a bit. The tax code nevertheless lends itself to formulas. So…

<u>Definitions:</u>

- II = Investment income
- IE = Investment expenses
- NII = Net investment income
- NSTCG = Net short term capital gain
- NLTCG = Net long term capital gain
- NG = Net gain
  - NG = NSTCG + NLTCG
- NCG = Net capital gain
  - NCG = NLTCG – NSTCG

Step 1 – Determine Investment Income

Investment income = (Interest income + dividends) + (NG – NGC)

Step 2 – Determine Investment Expenses

Investment expenses = interest paid + investment services + investment expenses

Step 3 – Subtract IE from II to get NII

Net investment income = II – IE

So as not to let you off too easy, each of the above ingredients in net investment income must be unpacked further to evaluate the different types of income that make up capital gains, investment services and so forth. Contact a qualified tax attorney for further guidance and tax planning strategies for your clients.

- Ari Good, Esq.

Ari Good is the Shareholder of Good Attorneys At Law, P.A. He received his B.A., with distinction, from the University of Michigan in 1993 and his J.D. from DePaul University in 1997. Mr. Good received his LL.M. (Masters of Tax Law) from the University of Florida in 2005. Ari counsels clients in industries ranging from hospitality to aviation in complex tax planning, employment tax and controversy matters. Visit www.goodattorneysatlaw.com for further information.