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## Dividend Tax Part of Paying for Healthcare

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By Jim Woods, Contributing Editor, InvestorPlace

The drama is finally over, and the votes have been cast on health care reform. Now Americans can really get a sense of what this legislation actually means for them. If you are one of society's top achievers or a dividend stock investor, chances are you feel this legislation represents a most unhealthy tax .

According to the bill passed Sunday night, beginning in 2013 the Medicare payroll tax will now be applied to investment income. There will also be a brand new tax of 3.8% imposed on interest, dividends, capital gains and other investment income for individuals making more than \$200,000 a year and couples making more than \$250,000. If you're a dividend stock investor, take note of the change.

To be certain, taxing society's top achievers to pay for government projects isn't new, but what is new is taxing the rich disproportionately to pay for social safety net programs. Federal programs such as Social Security and Medicare are largely paid for via broad-based payroll taxes. And while the rich pay more simply due to larger incomes, at least the current cost is spread throughout society. Well, all that will soon be over, and that means the more successful you are, the more Uncle Sam is going to smack your pocketbook to pay for everyone else's health care.

And how much will these new taxes cost? Well, according to Rep. Dave Camp, the ranking Republican on the House Ways and Means Committee, taxes will increase by \$569.2 billion as a result of this health reform legislation. Approximately \$210 billion will be raised over 10 years as a result of the new 3.8% tax on investments.

If you're a senior on a fixed income with only a small portfolio of dividend stocks, chances are you won't be bumping up against that 3.8% tax because you don't meet the income threshold. But according to some experts, this firm ceiling could actually work as a disincentive on these top achievers.

According to Alan Reynolds, Senior Fellow at the free-market think tank the Cato Institute, the current tax situation is untenable; "...the accumulating penalties on reporting joint incomes above \$250,000 — a 39.6% tax, a 3.8 % income surtax, a 0.9% Medicare surtax, rapid phasing-out of deductions and exemptions — would greatly discourage any activity that would push income above \$250,000." Reynolds says he plans to launch a "249 Club" whose members pledge to never again report income of more than \$249,000.

If the result of this health care reform legislation is a dampening down of economic activity on society's top achievers or investors shying away from dividend stocks, then it is indeed a most

unhealthy tax.

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