

Increasing your yield with investment related expenses

Apart from wages, one of the most common sources of taxable income is from investments. While investment income from non exempt sources is generally fully taxable to individuals under the Internal Revenue Code, many of the expenses incurred in producing that income are deductible. Knowing the rules governing investment expenses can sometimes significantly reduce the tax impact of investment income.

Deductible investment expenses

Investment interest: A significant source of investment related costs is investment interest expense. Investment interest paid, related to the generation of taxable investment income is generally deductible on Schedule A of Form 1040, however some limitation may reduce the amount deductible. For example, your deduction for investment interest paid may not exceed your net investment income. "Net investment income" is arrived at by subtracting your investment expenses (other than interest expense) from your investment income. Interest paid in excess of that amount determined to be deductible can be carried over and deducted in subsequent years (after application of these rules, of course).

Other investment expenses: Qualified investment expenses (other than interest) can be claimed as miscellaneous itemized deductions on Schedule A of your federal Form 1040 and are generally subject to the 2% threshold imposed on miscellaneous itemized deductions.

The list of investment expenses approved for inclusion as miscellaneous itemized deductions is a long one and it's worth reviewing, as unexpected ways to reduce your taxable income can be found. Some of the investment expenses that have been determined to be deductible as miscellaneous itemized deductions subject to the 2% floor include:

- Investment counsel or advisory fees, including managers, planners.
- Subscription to publications offering investment advice.
- Legal expenses for the maintenance, conservation or management of investment property.
- Legal expenses incurred in recovering investment property or amounts earned by such property.
- Guardian fees and expenses incurred in the production or collection of income of a ward or minor or in the management of the ward or minor's investments.
- Clerical help and office rent connected with the management of investments and or the collection of the income they generate.
- Accounting fees for keeping investment income records.
- Dividend reinvestment plan service charges, such as charges for holding the shares acquired through the plan, collecting and reinvesting cash dividends, keeping individual records, and providing detailed statement of accounts.
- Investment expenses connected with the purchase, sale or ownership of securities.
- Fees paid to broker, bank, trustee, or other investment related agent to collect interest or dividends on taxable investments.
- Losses on non-federally insured deposits in an insolvent or bankrupt financial institution, if the loss is treated as an ordinary loss by the taxpayer but is not treated as a casualty loss; and subject to a \$20,000 limit on losses from any one institution.
- Allocable investment expenses of privately offered mutual funds.
- Custodial fees.
- Travel cost incurred in making trips away from home to check on your property is deductible even if the property is not producing income.

So long as the property is held for the production of income, the expenses generated in connection with the management of investment property are deductible, even if the property is not currently producing income. Also, expenses incurred in reducing additional loss or to prevent anticipated losses with respect to investment property are deductible.

Nondeductible investment expenses

What kind of investment related expenses are not deductible? List of nondeductible expenses includes:

- Fees charged by the broker to acquire the securities. These costs are generally added to the basis of the securities. Similarly, fees paid on the sale of securities reduce the selling price.
- Fees for establishing or administering an IRA, unless billed and paid separately and apart from the regular IRA contribution.
- Expenses related to tax exempt investments.
- Trips to attend seminar or conventions connected with investment or financial planning.
- Trip to stockholder meetings.
- Home office expenses, unless investing is actually the taxpayer's business.

Remember, for purposes of the rules governing investment expenses, rental and royalty income related properties are not considered. These investments are subject to their own rules and reporting requirements, and are not included in the category of investment expenses limited by the 2% threshold.

This discussion related to the tax treatment of investment related expenses may appear comprehensive, other limitations and exceptions exist that may apply to your tax situation. For more information regarding how you can make the most of your investment related expenditures, please feel free to contact the office of Anne Tahim, CPA for assistance. Phone # 714-772-4744.

The information presented here in above is only of a general nature, and accordingly cannot be regarded as legal or tax advice.