



Tax Deductible Investment Expenses

DEDUCT THESE EXPENSES AND PAY LESS TAXES



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Uncle Sam allows you to deduct **investment-related expenses** when you file your tax return.

- 1 Professional and clerical costs** generated by your attorney, accountant and bookkeeper when engaged with making or receiving taxable income
- The **purchase or lease of software** and online services you employed to manage your investments
- 3 Fees you paid for investment consultation**; this includes not only personal consultation, but also subscriptions to print and digital financial publications
- 4 Custodial fees for your IRAs or Keogh plans**, but only if these fees were paid with funds from outside the account
- 5** Deduct reasonable **transportation expenses** when visiting the offices of your broker or investment advisor
- 6** Replacement costs for lost security certificates
- 7 Safe-deposit box rental** may be deducted if the box was used to store investment-related documents
- 8 Fees paid for automatic investment services**, and fees paid for dividend reinvestment plans

ELIGIBILITY

You are eligible for these itemized deductions if you meet this criterion: Investment-related expenses are allowed for expenses **ABOVE 2% OF YOUR ADJUSTED GROSS INCOME** (AGI).

This means there is a floor above which you can take deductions for investment-related expenses. If your expenses do not exceed this floor, you will be restricted from taking advantage of these fee deductions. Here's an example:

Your AGI is \$90,000 and you have \$3,500 in investment-related expenses. Because your AGI floor of 2% is \$1,800 ($\$90,000 \times 2\% = \$1,800$), you are entitled to deduct \$1,700 ($\$3,500 - \$1,800 = \$1,700$).

This makes a very nice tax saving.

THE TAX CODE

IRS Section 212 of the tax code identifies three categories eligible for deductible costs, assuming the 2% floor has been exceeded. Here's the code:

“In the case of an individual, there shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year—

- ✔ **for the production or collection of income;**
- ✔ **for the management, conservation, or maintenance of property** held for the production of income; or
- ✔ **in connection with the determination, collection, or refund of any tax.”**

NON-DEDUCTIBLE

There are also several expenses that seem like they should be deductible, but are not:

- You are not allowed to deduct loan fees when you borrow from your life insurance policy
- Transportation costs to attend a shareholders' meeting are disallowed
- Fees you're paying to your investment advisor for advice about tax-exempt income are ineligible; only fees related to advice about taxable investment income is allowed
- Your trading commission costs cannot be deducted as these are already “capitalized” when calculating your cost basis and/or determining the reduction of your taxable sales proceeds

ADDITIONAL THOUGHTS

Remember, you can also save money on your taxes if you are paying interest on a loan you took to purchase taxable investments. This is called “an investment interest expense”.

A good resource for more information on reducing your investment expenses is IRS Publication 550: Investment Income and Expenses. Here is a link for your convenience: [IRS Publication 550: Investment Income and Expenses](#).

Always consult with your tax advisor before making any significant tax motivated purchase or sale.