

Investment Expenses

We are often asked about what expenses related to your investment activities may be tax deductible. The IRS makes a distinction between what may be deducted by an active business and what may be deducted by an investor, and clearly favors the former. Nevertheless, you may still be pleasantly surprised by the items that may be legitimately deducted in connection with investments.

A variety of deductions may be taken by investors in stocks and securities. To be allowable, the deductions must be the taxpayer's own expenses and must be ordinary and necessary and related to the production or collection of taxable income. Fees for services of investment counsel, custodial fees, costs of clerical help, office rent, and similar expenses paid or incurred by taxpayers in connection with investments they own are deductible. However, expenses for conventions or seminars related to investments are not deductible.

- travel to broker's offices and investment sites;
- bank fees and safe deposit rental;
- fees for IRAs;
- mortgage pool service fees;
- custodian fees for investments; and
- subscriptions to investment related publications.

Managing your own investments in stocks and bonds almost never is a trade or business, even though an investor's activities may include buying and selling securities as well as owning the investments for the production of income. An investment club or partnership also is not a trade or business.

Subscriptions to newspapers and other professional and investment magazines and books may be deductible if there is a credible relation between the information and advice gained and the taxpayer's investment activity. Deductions have not been allowed for subscriptions to publications on antiques and art journals taken by collectors whose art activity is a hobby rather than primarily an income-producing activity.

Amounts paid by investors with respect to ordinary cash dividends on stock that is borrowed to cover a short sale are deductible. Loan premiums paid to a lender in connection with the borrowing of stock to cover short sales also are deductible. Amounts paid with respect to nontaxable stock dividends or liquidating dividends on stock borrowed incident to a short sale, however, are capital expenses and are not deductible. Expenses incurred in connection with a straddle or short sale that is in fact a sham transaction are also not deductible.

No expenses allocable to a convention, seminar or similar meeting are deductible as expenses for the production of income. Convention and seminar expenses are deductible only if incurred in connection with a trade or business.

If you would like further information on how expenses specifically related to your investment situation may be deductible, please do not hesitate to call.