

Deductions for investors

Q: FAQ: What tax deductions am I entitled to as an investor?

A: Certain investment-related expenses are deductible, others are specifically restricted. Still others won't get you a deduction, but you will be able to add them to your tax basis in the underlying investment, or net them from the amount you are otherwise considered to have received on its sale.

Investor expenses

Investment counsel fees, custodian fees, fees for clerical help, office rent, state and local transfer taxes, and similar expenses that you pay in connection with your investments are deductible as an itemized deduction on Schedule A of Form 1040, subject to the 2% floor for all such itemized deductions.

Travel expenses related to the production or collection of income are deductible if you provide proof both of the expenses and the necessity for incurring them. Deductions for travel expenses related to attending investment seminars, however, are specifically prohibited. Travel expenses to attend stockholder meetings are permissible deductions only if travel is not for personal reasons and expenses are reasonable in relation to value of the investment.

Interest expenses

If you take out a loan to carry investment property, you are entitled to an itemized deduction for the interest you pay, reported on Form 4952, which is limited to your net investment income (dividends, interest, rents, etc.) Margin interest paid connected with your stock portfolio qualifies. The investment interest deduction is not subject to the 2% floor – you can start with deducting the first dollar of interest paid. Any disallowed interest over the net investment income limit can be carried over to a succeeding tax year.

Caution. Net capital gain from the disposition of investment property is not considered investment income. However, you may elect to treat all or any portion of such net capital gain as investment income by paying tax on the elected amounts at their ordinary income rates. This is usually not advisable.

Brokerage commissions

Brokerage commissions related to a particular stock purchase or sell, on the other hand, are considered a cost of the sale itself. As such, any commissions paid to buy a stock are added to your tax basis in the shares, which will later determine the amount of taxable gain you have when the property is sold. Any commission on the sale of the shares is netted from the amount you will be considered to realize on that sale.