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[Education >> Taxes, Taxes, Taxes](#)

## Are Asset Management Fees Tax-Deductible?

*The question is simple. Thanks to the tax code, the answer is complex.*

One of the many benefits of investing in a fee-based investment program is that you pay no commissions. Thus, you avoid a common conflict-of-interest that often exists when working with financial advisors.

An asset management fee is based on the value of your account. Advisors who use this method want your account value to rise, just like you do. Having such a shared goal is an essential basis for an effective long-term partnership.

Can you list the fee as a deduction on your federal tax return? It's a simple question, but the answer is complex. Blame the Internal Revenue Code.

### For Taxable Accounts

An asset management fee is a tax-deductible expense. List the fee on your Schedule A under the section called "Certain Miscellaneous Deductions;" you can clearly see where the IRS allows you to deduct investment expenses.

However, your ability to enjoy tax savings via Schedule A depends on two factors. First, Schedule A provides tax savings only to the extent that your deductions exceed 2% of your Adjusted Gross Income. Furthermore, Miscellaneous Deductions are a "tax preference item" for purposes of calculating the Alternative Minimum Tax. If the AMT applies to you, some or all of these deductions could be disallowed.

### For IRA and Other Tax-Qualified Accounts

Tax professionals debate whether an asset management fee is a deductible expense for IRA accounts. Many agree that the fee is deductible, just as it is for regular accounts. Some tax preparers disagree, however, and suggest that the fee is only deductible if the IRA generates taxable income for that year.

Many also suggest that you pay the fee with money outside the IRA. If you do that, do those funds constitute an excess IRA contribution? The answer is murky. Although Section 219 of the Internal Revenue Code says commissions must be paid from IRA assets, the code says nothing about fees. However, an IRS Private Letter Ruling (PLR 200507021) says IRA fees can be paid with outside funds. Be aware, though, that PLRs are not binding on the IRS except to the individual taxpayer for whom the PLR is written.

For more information about the deductibility of asset management fees, talk with your tax advisor.

[Back to Previous Page](#)

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**RIC EDELMAN**

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