



GREENLEAF FINANCIAL GROUP

PRACTICAL SOLUTIONS | PERSONAL ADVICE | PROGRESSIVE IDEAS

Hello Jennifer:

**Welcome to
The Greenleaf Guide**

February 2012 Newsletter



Question

My husband and I are considering a continuing-care retirement community. Since we would pay a sizable upfront cost of more than

A Tricky Tax Question: Can You Deduct Investment Management Fees?

Picture this: You're working your way through your 2011 federal tax return. On Schedule A, you consider which deductions you can take, including medical and dental expenses, state and local income taxes, property taxes, mortgage interest, and charitable contributions.

You get to line 23, "Other expenses -- investment, safe deposit box, etc." and you enter the dollar amount of the investment management fees you paid in 2011. You follow the rest of the instructions, completing the form and you're done.

Or are you? Alas, you've just entered the murky world of IRS allowed deductions.

The Debate Goes On

Tax professionals must often interpret IRS regulations, but the area of deductible investment fees and costs is rife with different interpretations. Yes, asset management fees are tax-deductible expenses. However, two major considerations

\$250,000 plus a monthly fee, I'm wondering how to look past the many attractions and make sure we make a good financial decision. Do you have any advice?

Answer

The real estate bubble and subsequent crash has been felt by the continuing-care retirement community (CCRC) world, so it's important to make sure the one you're considering has sound finances. CCRC's advertisements may guarantee life occupancy, but what if it goes before you do? One of the country's largest developers, Erickson Retirement Communities, went into bankruptcy protection in 2010, had its Columbus, Ohio facility foreclosed on and stopped its Charlotte, NC, development altogether. Others have delayed opening assisted-living or skilled-nursing units. Many CCRC's rely on investment income, which has been unstable, at best.

Start with the questions developed by www.carf.org, which accredits continuing-care communities. Use the [attached](#) document "Consumer Guide to Understanding Financial Performance and Reporting in CCRCs" and explore the other resources on their website.

For those facilities on your short list, ask for a copy of their audited financial statements. (If you meet any resistance, walk away and don't look back!) A good indication of financial stability is how many days of cash on hand it has to operate. This shows how long the CCRC could operate with no additional revenue. A CPA or accountant can calculate this for you if it is not shown in the financial

are important:

1. For starters, not many people meet the qualifications required to deduct their investment expenses. These expenses are deductible only to the extent that your combined miscellaneous expenses *exceed* 2% of your adjusted gross income. In other words, only the amount *over* 2% of your AGI is deductible. In addition, this area is subject to AMT, which may disallow some or all of the deduction.

2. Finally, many tax pros believe that there are differences between fees paid for investment management on taxable accounts versus those paid in IRA and tax-advantaged accounts. While taxable account costs are generally considered deductible if they can be documented, some experts believe that costs for IRA accounts can be included only if the IRA owner received taxable distributions during the year. Other experts recommend deducting the fee only if it was paid with money outside of the IRA.

Document and Be Consistent

If you meet the qualifications in number one, above, then speak with your tax preparer and make sure his or her approach is one you agree with. Ultimately, you are responsible for the information on your tax return should a problem ever arise.

IRS Publication 529 provides a list of costs that can -- or can not -- be deducted. Mutual fund expenses are not deductible because they reduce the income generated by the mutual fund. Similarly, brokerage costs to trade stocks and bonds reduce your cost basis and should not be deducted as a miscellaneous expense because they are factored into investment gains or losses elsewhere. Investment newsletter costs can be deducted, but conferences can not.

reports. Accredited single communities average about 300 days, whereas those with multiple sites are closer to 281.

A cash to debt ratio is another good measure and it should be 35% or better. Occupancy rates should also be high, preferably 90% or higher.

Finally, check into your state's resources. The California Continuing Care Residents Association, for example, at www.calcra.org is an independent CCRC residents organization that deals with statewide policy and legislative issues.

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As with all areas of your tax return, maintain documentation and your returns for at least five years and be consistent in your data methods from one year to the next.

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