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Sent: Friday, February 16, 2018 4:57 PM
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Certain Trust and Estate Expenses—Fully Deductible or Not?

New guidance has been issued by the Internal Revenue Service (IRS) addressing costs incurred by estates and trusts. The recent regulation clarifies which expenses are fully deductible and which expenses are limited based on income levels.

The IRS' criteria for a fully deductible expense is any expense that is both incurred in connection with the administration of the estate or trust and incurred due to the property being held in such estate or trust. Alternatively, expenses are limited if they would commonly be incurred if the same property were instead held by an individual. The limitation is 2% of the trust's or estate's adjusted gross income (AGI), meaning the sum of these certain expenses can only be deducted after subtracting 2% of the trust's or estate's AGI.

The following expenses are fully deductible:

- * Tax preparation fees for all estate returns, generation-skipping transfer gift returns, fiduciary income tax returns, and the decedent's final individual tax return
- * Court costs and appraisal fees for determining value of property at decedent's death
- * Investment advisory fees beyond the amount normally charged to an individual investor
- * Trustee fees

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