

HASHEM and SIMMS, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Dear Client

You may be concerned about whether certain legal and professional expenses are tax deductible.

In this letter, We shall attempt to briefly summarize the guidelines for determining whether expenses are deductible as legal or professional expenses. Once you have reviewed your expenses in light of this analysis, We suggest that we get together again in order to discuss specific expense items.

Legal and professional fees may be deducted only if they fall into one of the following two categories:

•Trade or Business Legal and Professional Fees.

In order to be deductible under this category, legal and professional fees must have been paid or incurred in carrying on a trade or business. Trade or business legal and professional fees are deductible in full.

•Deductible Nonbusiness Legal and Professional Fees.

There are three classes of nonbusiness legal and professional fees which are deductible: fees paid or incurred (a) for the production or collection of income; (b) for the management conservation, or maintenance of property held for the production of income; or (c) in connection with the determination, collection or refund of any tax. Nonbusiness deductible legal and professional fees (with the exception of expenses attributable to the production of rental and royalty income) are subject to the 2% floor under miscellaneous itemized deductions.

Legal and professional fees which qualify as personal or capital expenditures are not deductible at all. However, legal and professional fees may be partly deductible and partly nondeductible depending on the circumstances. For example, such expenditures may have been incurred partly for business and partly for personal reasons. In such a case, legal and professional fees must be allocated between the deductible and nondeductible categories.



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Some of the deduction rules are complex and require informed judgment to determine whether a particular legal or professional expense is deductible. For this reason, the facts of your situation should be carefully reviewed. Therefore, We suggest that you contact us to arrange a meeting in which we can further discuss whether the legal and professional expenses incurred during the preceding tax year are tax deductible.

Sincerely,

George K Hashem, CPA

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