



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Court Rules that Taxpayer Has No Compensation and is Ineligible for an IRA Deduction

Taxpayer is not a Professional Trader and is Ineligible for an IRA

Robert Kobell v. Commissioner (T.C. Memo 2011-66; March 17, 2011)

In a recent case, the Tax Court ruled that a taxpayer did not qualify to be treated as a professional trader. As such, the income from his investments was not compensation and he was therefore ineligible to receive a deduction for an IRA contribution as he had no other earned income.

Facts of the Case

In 2005, 68 year-old Robert Kobell made a \$4,500 contribution to his traditional IRA. Earlier in life Kobell had gained significant experience working with various financial instruments, and had "participated in the financial markets by trading stocks and derivatives at times with partners." But such was no longer the case in 2005, when Kobell made *just*

A taxpayer who made just three trades didn't qualify as a "professional trader."

three stock transactions, but claimed on his 2005 return that he was actively working as an "investor/trader."

In addition to \$71,523 of corporate bond interest and \$4,908 of Social Security benefits, Kobell also reported \$915 of dividend income. Kobell reported these dividends on Schedule "B" (Interest and Ordinary Dividends), rather than on Schedule C (Profit or Loss From Business), as would be expected if he were reporting income from a professional trading business.

Upon review, IRS determined that Kobell did not have any compensation (earned income) and therefore was not entitled to take a deduction for an IRA contribution. Kobell thought differently, so he filed a petition and the two sides went to court.

The Court's Ruling

The Court took little time to squash any hope Kobell may have had. In its

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