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*Audits of Performance Records

*New IRS guidance on SE tax deductions affects partnership AGI-deduction strategies

*Kick-Off to 2013 Tax-Filings for Traders

*Audits of Hedge Funds

*ObamaCare taxes are starting to affect traders

*The Tax Court Was Right To Deny Endicott Trader Tax Status

* Investment management: Key updates

*Learn the DOs and DON'Ts of using IRAs and other retirement plans

Trader Tax Center

Tax Newsletter & Calculators



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August 18: Common trader tax mistakes [Read More](#)

2014 GTT Guide: 2013 Tax Return Examples for Section 1256 contracts and Futures & Forex Traders (Individual and Entities)

Jan. 24, 2014 Update: We just published Green's 2014 Trader Tax Guide. We plan to release this guide along with our 2014 examples guides by February 3, 2014 on the targeted date. 2013 guide logins expire on January 31, 2014.

This tax return examples guide is best utilized as a companion guide to [Green's 2014 Trader Tax Guide](#). Use *Green's 2014 Trader Tax Guide* to receive every trader tax break you're entitled to this 2013 tax-filing season and for planning in 2014. It includes the latest tax law, our updating thoughts, tax strategies, pitfalls, tweaks, warnings and benefits.

We offer several years of tax return examples around similar facts and circumstances. Click on the Complete Tax Return Example hyperlinks below for a PDF file containing an entire federal and state tax return, including notes explaining each tax situation. We also include important tax return footnotes in most tax return examples. In *Green's 2014 Trader Tax Guide*, we explain the importance of including well written footnotes to answer IRS questions in Chapter 6, "Trader Tax Return Reporting Strategies."

2013 tax return examples:

We include 2013 tax return examples to display important tax law changes discussed in *Green's 2014 Trader Tax Guide*. We display examples from the prior tax years when they are also helpful, and nothing changed except the year on the tax form. Tax rates were increased in 2013 on upper-income taxpayers as laid out in *Green's 2014 Trader Tax Guide*. Important changes for 2013 include: **(We are publishing the below 2013 examples on February 3, 2014. These examples will be available to 2014 guide buyers only, including free upgrades after September 9, 2013.)**

- **Form 8960 (Net Investment Income Tax)** for the new the ObamaCare 3.8% Medicare surtax on unearned income" — affects upper-income traders and investment managers as of Jan. 1, 2013. It only applies to individuals with modified adjusted gross income (AGI) exceeding \$200,000 (single), \$250,000 (married filing jointly) or \$125,000 (married filing separately). As of Jan. 23, 2014, the IRS has not released final instructions for Form 8960.
 - Our first 2013 example has a business trader in futures with a large trading gain on Form 6781, large enough to exceed the AGI threshold triggering NIT on Form 8960. We also do our transfer-of-income strategy to Schedule C to unlock home-office deductions. This trader is able to deduct all trading business expenses from NII since he does not have any SEI.
 - Our second 2013 example has a business trader in futures with a (\$20,000) net trading loss reported on Form 6781, which generates a capital loss limitation of (\$3,000). He also has trading business expenses of \$15,000. His wife has wage income of \$300,000, large enough to exceed the AGI-threshold and be concerned with triggering NIT on Form 8960. They have interest and dividend income of \$100,000. Notice they have significant NII bucket 1 income for interest and dividends, and a NII bucket 3 loss from the \$3,000 capital loss. Notice how the final regulations were favorable to business traders and investors allowing the capital loss to offset NII bucket 3 to offset NII bucket 1 income. Normally, a bucket loss cannot be utilized. We discuss NII and NIT in *Green's 2014 Trader Tax Guide*, chapter 15.
- **Entities, SEI and health insurance and retirement plan deductions:** We've changed our entity strategies to conform to new IRS guidance stating trading business expenses can now be included in self-employment income (SEI); before this our position was they were not. Read *Green's 2014 Trader Tax Guide* Chapter 7 on Entities, and or our blog dated Jan. 14, 2014 "[New IRS guidance on SE tax deductions affects partnership AGI-deduction strategies.](#)"
 - We have an example of an S-Corp tax return. See the Officer's Compensation (salary) in connection with the entity-level retirement plan deduction. We gross up wages for the health insurance premiums paid by the S-Corp, so the individual reports a Form 1040 AGI-deduction for the health insurance premiums. It's a wash against the wages, so effectively the deduction is on the S-Corp return. There is no SEI on the individual return.
 - We have an example of a husband and wife general partnership (HWGP) with 80/20 allocations. The husband has wages and is non-active in the HWGP, and the wife is the active trader with the lower 20% allocation percentage. The HWGP pays the wife an administration fee to unlock an AGI-deduction for an Individual 401(k) retirement plan, the \$17,500 election-deferral portion. The husband has health insurance for the family in his job. See our above blog for a further explanation for how we calculated the administration fee to be offset by trading business expenses. We recommend our tax compliance services for these types of situations.
 - We have an example showing trading business expenses offsetting SEI from another activity like a Schedule C consulting business. This taxpayer takes home office in the consulting business so he doesn't need or transfer-of-income strategy.

- **Retirement plans:** See how we drive retirement plan deductions with entities in the examples above. We also show the power of defined-benefit plans with deductions up to \$205,000 for 2013. Plus, using a Roth conversion to soak up Section 475 MTM losses and unutilized itemized deductions, and exemptions.
- We plan to add more examples here soon.

July 24: Learn the DOs and DON'Ts of using IRAs and other retirement plans in trading activities and alternative investments [Read More](#)

March 31: PFG investors can deduct theft losses on 2012 tax returns with Rev. Proc. 2009-20 safe harbor relief. That's great news! [Read More](#)

March 5: Caution, downloading securities Form 1099-Bs into TurboTax often leads to incorrect tax filings [Read More](#)

Sept 5: High-income traders and ObamaCare's 3.8% Medicare tax [Read More](#)

GreenTrader blog archive, Forbes blog, Benzinga blog.

PRIOR YEAR TAX RETURN EXAMPLES:

IMPORTANT NOTE: These prior year examples were under our prior position that trading business expenses do not reduce self-employment income. For more information, read *Green's 2014 Trader Tax Guide* Chapter 7 on Entities, and or our blog dated Jan. 14, 2014 "[New IRS guidance on SE tax deductions affects partnership AGI-deduction strategies.](#)"

April 1, 2013 update about PFG theft losses:

We added an example 2012 tax return example showing a PFG theft loss deduction in accordance with IRS Rev. Ruling 2009-09 and Rev. Proc. 2009-20. Notice the Schedule A (line 28) deduction without any limitation, coming from Form 4684 with worksheet, the footnotes and signature block. This example tax return reflects a \$100,000 deposit loss, 95% loss calculation (\$95,000), and after adding back the 30% recovery in 2012 (\$30,000), the Form 4684 and Schedule A line 28 theft loss deduction is \$65,000. Read the related [blog](#). [Click here](#) for the PFG theft loss example 2012 tax return.

Trading Section 1256 Contracts and Securities and Different Retirement Plan Choices:

(These first four examples are also displayed in our securities examples guide.)

The tax treatment of securities differs substantially from tax methods applied to Section 1256 contracts and forex. Many of our clients trade in multiple areas.

As suggested in *Green's 2013 Trader Tax Guide*, business traders save materially more tax money with an Individual 401(k) plan, vs. a SEP IRA, vs. no plan at all. The following four examples show these differences.

EX1-LLC

Mixed trading in equities and futures.

Contributions to SEP retirement plan. We recommend an Individual 401(k) plan for traders instead of a SEP IRA.

Two-member LLC (files a partnership tax return).

All trading in LLC.

Full-time securities and futures business trader with trader status.

Trading gains.

LLC paid admin fee to enable SEP IRA contribution on individual return.

See how the client saves more with an Individual 401(k) contribution below.

Elected IRC 475 Mark-to-Market (MTM) for securities.

Cash basis (Sec 1256) treatment of futures trading.

Began trading mid-year.

As first-time filer, no F3115 or Sec 481(a) adjustment necessary.

[2012 Individual Tax Return](#)

[2012 LLC Return](#)

[2011 Individual Tax Return](#)

[2011 LLC Return](#)

[2010 Individual Tax Return](#)

[2010 LLC Return](#)

[2009 Individual Tax Return](#)

[2009 LLC Return](#)

EX3-LLC

Mixed trading in equities and futures.

Contributions to SEP retirement plan. We recommend an Individual 401(k) plan for traders instead of a SEP IRA.

Two-member LLC (files a partnership tax return).

All trading in LLC.

Full time securities and futures business trader with trader status.

Trading gains.

Trader saves more with an Individual 401(k) plan contribution.

Admin fee paid by the LLC to the member.

Elected IRC 475 Mark-to-Market (MTM), and cash basis (Sec 1256) treatment of futures trading.

[2012 Individual Tax Return](#)

[2012 LLC Return](#)

[2011 Individual Tax Return](#)

[2011 LLC Return](#)

[2010 Individual Tax Return](#)

[2010 LLC Return](#)

[2009 Individual Tax Return](#)

[2009 LLC Return](#)

EX1SCORP

Mixed trading in equities and futures.

No contributions to retirement plan.

Single-member LLC (SMLLC) with S-Corp election.

All trading in S-Corp.

Full-time equities business trader with trader status.

Equities MTM loss with futures cash gain.

S-Corp reports loss on K-1.

Elected IRC 475 mark-to-market for securities.

As first-time filer, no F3115 or Sec 481(a) adjustment necessary.

[2012 Individual Tax Return](#)

[2012 S-Corp Return](#)

[2011 Individual Tax Return](#)

[2011 S-Corp Return](#)

[2010 Individual Tax Return](#)

[2010 S-Corp Return](#)

[2009 Individual Tax Return](#)

[2009 S-Corp Return](#)

EX2SCORP

Mixed trading in equities and futures.

Contributions to retirement plan.

Single-member LLC (SMLLC) with S-Corp election.

All trading in S-Corp.

Full-time securities and futures business trader with trader status.

Trading gains.

Computed W-2 wage payment from S-Corp to allow maximum individual 401(k) contribution.

In addition to W-2, S-Corp furnishes K-1 to individual to report gain.

Elected IRC 475 mark-to-market for securities.

Began mid-year.

As first-time filer, no F3115 or Sec 481(a) adjustment necessary.

Cash basis (Sec 1256) treatment of futures trading.

[2012 Individual Tax Return](#)

[2012 S-Corp Return](#)

[2011 Individual Tax Return](#)

[2011 S-Corp Return](#)

[2010 Individual Tax Return](#)

[2010 S-Corp Return](#)

[2009 Individual Tax Return](#)

[2009 S-Corp Return](#)

Other Tax Return Examples:

EX12F-CA

Investor in Section 1256 contracts.

Trader did not qualify for trader tax status.

Section 1256 trading losses.

[2012 Tax Return](#)

[2011 Tax Return](#)

[2010 Tax Return](#)

[2009 Tax Return](#)

EX12F-NY - New for 2010 tax year

Left W-2 job mid-year and qualified for trader tax status (business treatment) for the rest of the year.

No entity formed for his trading business.

Trading expenses reported on Schedule C as a sole proprietor.

Trading loss in forex reported on Form 4797 as a business trader.

[2012 Individual Tax Return](#)

[2011 Individual Tax Return](#)

[2010 Individual Tax Return](#)

EX9F-CA

Investor in Section 1256 contracts.

Trader did not qualify for trader tax status.

Section 1256 contract trading gains.

[2012 Tax Return](#)

[2011 Tax Return](#)

[2010 Tax Return](#)

[2009 Tax Return](#)

EX7F-CA

Business trader in Section 1256 contracts.

Elected Section 475 MTM on Section 1256 contracts

Section 1256 trading gains.

[2012 Tax Return](#); [2012 Form 3115](#)

[2011 Tax Return](#); [2011 Form 3115](#)

[2010 Tax Return](#); [2010 Form 3115](#)

[2009 Tax Return](#)

EX10F-CA

Business trader in Section 1256 contracts.

Elected Section 475 MTM on Section 1256 contracts.

Section 1256 trading losses.

[2012 Tax Return](#)

[2011 Tax Return](#)

[2010 Tax Return](#) [2010 Form 3115](#)

[2009 Tax Return](#)

Business traders may elect Section 475 MTM on securities and/or Section 1256 contracts. Generally, we recommend Section 475 MTM on securities only, to retain lower 60/40 tax rates on Section 1256 contracts. But if a trader incurs large losses in Section 1256 contracts before the Section 475 MTM election date of April 15, he should consider the election. That's exactly what happened to this trader. Section 475 MTM ordinary trading losses create a net operating loss (NOL). NOLs may be carried back two tax years or carried forward 20 tax years.

EX11F-CA

Business trader in Section 1256 contracts.

Did not elect Section 475 MTM on Section 1256 contracts.

Section 1256 trading losses.

No Section 1256 loss carryback election since no Section 1256 trading gains in prior three tax years.

[2012 Tax Return](#)

[2011 Tax Return](#)

[2010 Tax Return](#)[2009 Tax Return](#)

This example is the flip side of the previous one (EX10F-CA). This time, the trader either did not know about the Section 475 MTM election or incurred the Section 1256 trading losses after the Section 475 MTM election deadline of April 15.

EX8F-CA

Business trader in Section 1256 contracts.

Did not elect Section 475 MTM on Section 1256 contracts.

Section 1256 trading gains.

[2012 Tax Return](#)[2011 Tax Return](#)[2010 Tax Return](#)[2009 Tax Return](#)

Another flip side example. Same as the previous two examples, except this trader was wise not to elect Section 475 MTM on Section 1256 contracts so he could retain the lower 60/40 tax rates.

EX6F-N

Left W-2 job in May to begin trading forex full time.

Reported \$12,000 forex ordinary trading loss to Form 4797 Part II, generating a NOL in the year.

This forex trader did not file a contemporaneous Section 988 opt-out "capital gains" election.

[2012 Tax Return](#)[2011 Tax Return](#)[2010 Tax Return](#)[2009 Tax Return](#)**EX5F-NY**

Continues W-2 job and starts trading forex as an investor, without trader tax status.

Without trader tax status, trader reports forex ordinary trading loss of \$12,000 on Line 21 on Form-1040 (Other Income/Loss).

[2012 Tax Return](#)[2011 Tax Return](#)[2010 Tax Return](#)

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