Conclusion

Congratulations—you made it to the end of my tax book, and tax books are not the most fun to read.

If you jumped ahead to this conclusion, that's okay, as long as you absorbed most of the book and plan to use it as a road map going forward. If you already read it cover to cover, we applaud you for making an excellent investment of your time. You have what it takes to save significantly more in taxes—patience, time and foresight. Now comes the good part—it's time to collect your rewards in the form of tax breaks, reduced tax payments, and/or big refunds. That part is on everyone's best-buy list.

You should now be fully informed about all the special tax breaks for traders. You also understand that knowledge alone doesn't deliver tax savings. You must execute these trader tax strategies on a timely basis and remember to not sell yourself short. These strategies are battle tested, and they work whether or not your friends know about them. Don't count on getting good second opinions from other accountants—they are still in the dark about this subject. Most traders and professionals still don't know how to turn a trader's garbage (losses and expenses) into gold. *The Tax Guide for Traders* not only shows you how to get huge refunds on trading expenses and losses, it shows you how to reduce your taxes on gains (with expenses, retirement plans, and much more).

Reading may have been beneficial, but only timely concerted action on your part will deliver these trader tax savings. Here is a summary of your steps to take:

First, determine whether or not you qualify for trader tax status, which is business treatment. This first step is actually the hardest and most crucial. If you qualify, all the trader tax breaks are unlocked, and you can collect them in further steps. But if you don't qualify, you will miss out on most of these benefits.

Don't make this qualification decision lightly. As pointed out, the laws are vague and unclear, and you may need to consult with a proven trader tax expert to make the right determination. If you don't qualify when you study the situation, consider that by trading a little more actively in the future, you may qualify later on, or even for the entire year.

Qualification for business treatment converts all your trading-related expenses to business deductions, which will save you a large amount in taxes (figure between several thousand to tens of thousands, depending on your level of expenses, including home office deductions). This savings alone is worth the price of *The Tax Guide for Traders* and the time you took to read it.

Now for the big bucks! A key golden strategy in this book is the concept of tax-loss insurance. If your trading house burns down (i.e., you lose lots of trading capital), you get an insurance reimbursement check (i.e., a tax-refund check based on ordinary tax-loss deductions). Investors lacking trader tax status can't get this type of insurance; they are stuck with onerous rules for capital loss limitations, wash sales, and straddle losses. Business traders are entitled to elect IRC Section 475 mark-to-market accounting (MTM) by April 15 of the current tax year (April 15, 2005, for 2005) to get this ordinary gain or loss treatment. MTM is the saving grace for traders who lose lots of money. It also exempts profitable traders from wash sales, thereby reducing their tax bills.

Securities, commodities, Forex, options, ETFs, E-minis—there are a bevy of new financial products to trade. Many products may trade alike, but they are taxed differently. The IRS breaks all these new products down into two camps—securities or commodities. You learned all the differences in this book and now know what are taxed as securities versus commodities. You learned you may save 12 percent in taxes by trading a commodity such as an E-mini rather than an ETF, a security. This is one case where you may want the tax tail to wag the dog. Commodities (including futures, broad-based indices such as the E-minis, and Forex—if you elect out of IRC 988) are taxed at 60/40, and the blended maximum 2004 tax rate is 23 percent. Securities (stocks, stock options, bonds, mutual funds, ETFs, narrow-based indices, and single-stock futures) are taxed at ordinary 2004 income tax rates up to 35 percent.

Mark-to-market accounting is recommended for all securities business traders, but not for profitable commodities traders. Securities traders pay the same 35-percent tax rate on gains with or without IRC Section 475 MTM, but with MTM they unlock ordinary loss treatment—a chance to get huge refunds faster. Commodities traders skip IRC Section 475 because why should they pay a 12-percent higher tax rate just to get ordinary loss treatment? From now on, when someone mentions IRC Section 475 (MTM), 1256 (commodities/futures), or 988 (currencies), you know exactly what they are talking about and what's good for you.

After you get the basics down, it's time to consider forming your own separate legal entity. The main benefits are creating earned income in order to have tax-deductible retirement plans, health-insurance premiums, and late-year MTM elections. You now have a good idea about which type of entity is best suited to your needs. If you are single, perhaps you want a single-member LLC or an S-corp. If you are married, maybe a husband-wife general partnership or a multimember LLC is best. Consider a consultation with an expert to find out if an entity is advantageous for you and exactly what the stealth taxes are in your home state.

Retirement plans are your ticket to a golden retirement. You learned about the best types of retirement plans for traders—mini 401(k) plans, SEP IRAs and Roth IRAs. You also learned how to avoid taxes and penalties from taking early withdrawals from your retirement plans. We showed you a few clever ways to trade your retirement funds directly, staying clear of ERISA, DOT, and the IRS. It's not easy or always prudent to trade your retirement funds.

Tax savings are great, but you also have potential accounting nightmares as an active trader. Commodities traders have it easy—their brokers give them a single profit or loss number on a Form 1099. All other traders face a potential nightmare if they try to figure out each trade-by-trade gain or loss manually, as they may have thousands or hundreds of thousands of trades. Consumer accounting software may be okay for investors, but it's not robust enough for hyperactive traders. Our GTT TradeLog family of software programs is designed for all levels of traders and is highly rated by the leading magazines. Download your trades and simply press a button for your tax reports, including all necessary adjustments (wash sales, MTM, 481 adjustments, and more). Your last—and maybe best—resort for accounting is our inventory approach or performance method approach accounting formulas. Rather than do your accounting trade by trade, you are able to come up with excellent results on an annual basis. It's like counting the entire forest rather than each tree in the forest.

You learned that you can claim business tax status after the fact, but you must elect MTM accounting benefits in advance of year-end. That's just one of many trader tax benefits that require advance planning (tax planning). For example, should or shouldn't you generate a wash sale at year-end? In one case it's smart; in another it's unwise. Should you pay your taxes on time with quarterly estimated tax payments or take a "margin loan" from the IRS to leave your money in the markets? You learned all the ins and outs of good trader tax planning in *The Tax Guide for Traders*, so now plan ahead!

You also learned about extensions. Too bad you couldn't use them at school or at work. The majority of people in the know use this hidden gem from the IRS. You also learned that it's only an extension of time to file, not to pay. The IRS and the states want their money on time. You learned how to navigate around the "safe harbors" and to be aggressive with returns and conservative with tax payments.

Proprietary trading gives you the chance to trade "other people's money." It sounds fantastic until you read all the fine print. In most cases, proprietary trading firms require deposits from you to cover part of your risks, and all your losses and expenses. Is that really other people's money? At a minimum, you do get other people's leverage, more than you could get as a retail trader. However, leverage is a double-edged sword: it can lead to faster profits or a faster demise. There are plenty of complications and nuances in various types of proprietary trading firms and their agreements, and they lead to different tax issues and business risks. Use the information in this book to avoid trouble and tap the benefits.

All is great until the IRS wakes up and selects your return for exam (audit). Expect the IRS agent to go on the attack, most likely because he doesn't have a proper trader tax education. Use *The Tax Guide for Traders* to turn your case around early and win. Educate the IRS agent and push to have your exam closed, even before it starts (with a recon). You will need a proven CPA or attorney to represent you. Don't become cannon fodder for the IRS without first getting help.

Tax laws change with the fierce political winds, but few significant changes are expected for business traders. Will 60/40 tax rates for commodities traders be repealed for commodities traders or extended to securities traders? Obviously, the latter is preferred. Tax rates may go up or down, but rates are applied on net income, the end result of business tax treatment. So, a trader's business deductions and losses are on safe ground, even with the far-reaching discussion of a flat tax.

Keep it simple and execute all our simple tax strategies. Trade, make money, pay lower taxes on income and, if you lose, get big refunds to replenish your trading accounts. Save for your retirement with tax advantages. Taxes are like trading—simulated trading does not make you any money, only actual trading does. Make the trades and execute your tax strategies.

Please join our GTT Alliance for Traders. Learn about the alliance and loads more on our website at www.greentradertax.com.

Thank you to all the fine CPAs and attorneys at GreenTraderTax.com and GreenTraderLaw.com for helping me with this book. Also thanks to Jeff Ponczak of *Active Trader* magazine for being my fine editor on our site, in our guides, and in this book. Thank you McGraw-Hill for sharing our vision to educate the big trader class on these (so far) hidden tax breaks. It's nice to be associated with the leading publisher for traders.

Happy trading and taxes.