



Highlighted Recent Recordings:

- *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



Highlights (see the full archive):

Jan 14: New IRS guidance on SE tax deductions affects partnership AGI-deduction strategies. [Read More](#)

Jan 9: A major tax reform bill in 2014 is unlikely, and "tax extenders" may be history, too. [Read More](#)

Jan 7: Kick off to 2013 tax filings for traders. [Read More](#)

Dec 4: IRS final regulations for Net Investment Tax help traders. [Read More](#)

Dec 3: Bitcoin is a hot commodity, but is it taxed like commodities, assets, or currencies? [Read More](#)

Nov 15: Another non-business trader gets busted in tax court trying to cheat the IRS. [Read More](#)

Nov 6: Hedge fund investors depend on "assurance" from quality independent CPA firms. [Read More](#)

Oct 29: ObamaCare taxes are starting to affect traders. [Read More](#)

Sept 15: Not Easy For New Yorkers To Escape Big Apple's Tax Bite. [Read More](#)

August 30: The Tax Court Was Right To Deny Endicott Trader Tax Status [Read More](#)

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

July 24: Learn the DOs and DON'Ts of using IRAs and other

2014 GTT Guide: 2013 Tax Return Examples for Securities 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."

Each of the securities tax return examples below would have a large attachment for line-by-line reporting of Form 8949 and/or Form 4797 trade transactions. Although they are prepared, we do not include these attachments with the complete PDFs below. As indicated in *Green's 2014 Trader Tax Guide*, line-by-line reporting is required for Form 8949 and Form 4797. These attachments are generated by [TradeLog](#) software, which we recommend for securities traders. A Form 8949 PDF attachment may be attached to an e-filed individual tax return.

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 Section 475 MTM business trader with a large trading gain on Form 4797, 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. (See the Form 3115 with related Section 481(a) adjustment for this client example below).
 - Our second 2013 example has a Section 475 MTM business trader with a (\$20,000) net trading loss reported on Form 4797 and 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 Section 475 MTM loss. Notice how the final regulations were favorable to business traders allowing a Section 475 MTM loss in 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.

- **TradeLog footnote.** New for 2013, while TradeLog still has a gross reconciliation to Form 1099-Bs, the program does not enter that difference as an adjustment on Form 8949. Learn about this in Green's 2014 Trader Tax Guide Chapter 4 on Accounting for Trading Gains and Losses.
- **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.

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.

2013 Form 3115 (Change of Accounting Method) for electing mark-to-market accounting IRC 475:

Provided you have filed a 2013 election statement for Section 475 mark-to-market (MTM) accounting with your 2012 extension (or tax return) filed by April 15, 2013, you need to "perfect" that election (step two) by filing a 2013 Form 3115 with your 2013 tax return, no later than the extended due date of October 15, 2014. For your convenience, we provide you with a [filled in Form 3115](#) with blank lines for your Sec 481(a) adjustment amount. Also, please see our [annotated Form 3115](#) which shows no Sec 481(a) adjustment. Please also file with the Form 3115 copy that goes to the national office a [Declaration under Penalty of Perjury](#) stating you made a timely election. This is to avoid problems due to the fact that the IRS person checking your return currently has no way to confirm that an election was filed with your extension. "New taxpayers" like new entities elect Section 475 MTM internally, so they shouldn't file a Form 3115. For more important information about Section 475 MTM, read *Green's 2014 Trader Tax Guide* Chapter 2 on Section 475 MTM. (This Form 3115 is for the first example we have above for a "Section 475 MTM business trader with a large trading gain on Form 4797.")

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.](#)"

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

(These first four examples are also displayed in our Section 1256 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 2014 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](#)

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](#)

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](#)

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](#)

Other Tax Return Examples:**EX14F-CA**

Full-time securities business trader.

Trading gains.

Elected IRC 475 mark-to-market and pro-rated IRC 481(a) gain adjustment over four years.

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

EX13F-CA

Full-time securities business trader.

Trading losses.

Elected IRC 475 mark-to-market and 100% of loss taken.

Large net operating loss (NOL) available for two-year carryback and/or 20-year carryforward.

Includes a fully executed Form 3115.

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

EX12F-CA

Does not qualify for trader tax status and files as an investor with limited investment expenses allowed on Schedule A.

Schedule C trading business expense treatment is so much better.

Section 1256 contract trading loss of \$79,000.

No Section 1256 contract gains in prior three years, so no Section 1256 loss carryback election in 2012.

Large capital loss carryover.

[2012 Individual Tax Return](#)

EX18F-GA

Part-time securities business trader.

Trading gains.

Elected IRC 475 mark-to-market and pro-rated IRC 481(a) gain adjustment over four years.

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

EX30F-CA

Full-time securities business trader.

Trading gains.

Cash method — report trades on Form 8949, which is then input into Schedule D.

[2012 Individual Tax Return](#)

EX103

Left W-2 job in May to trade securities full time.

Trading gains.

Cash method — report trades on Form 8949, which is then input into Schedule D.

[2012 Individual Tax Return](#)

EX104

Left W-2 job in May to trade securities full time.

Trading loss.

Cash method — report trades on Form 8949, which is then input into Schedule D.

Schedule C loss.

Net operating loss.

[2012 Individual Tax Return](#)

EX105

Full-time securities business trader.

Trading loss (limited to \$3000 capital loss limitation).

Cash method — report trades on Form 8949.

[2012 Individual Tax Return](#)

EX1-US

Texas residents with W-2 income of \$120,000.

Husband/wife general partnership qualifying for trader tax status (business treatment).

Partnership ordinary business loss of \$24,000.

[2012 Individual Tax Return](#)

[2012 Partner Tax Return](#)

EX2-LLC

Nevada residents with W-2 income of \$149,000.

LLC with trader tax status (business treatment) and seven months operation in their first year.

LLC ordinary business loss of \$14,000.

[2012 Individual Tax Return](#)

[2012 LLC Tax Return](#)



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