IBKRWEBINARS.COM

IBKRWebinars by InteractiveBrokers

October 18, 2023

Green Trader Tax

Year-End Tax Planning For Traders

Robert A. Green
CPA
Green Trader Tax

IBKRWEBINARS.COM

Disclosure:

Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled Characteristics and Risks of Standardized Options by visiting ibkr.com/occ. Multiple leg strategies, including spreads, will incur multiple transaction costs.

Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the CFTC Risk Disclosure. For a copy visit interactivebrokers.com.

There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.

The Order types available through Interactive Brokers LLC’s Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.

There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice which may be relied upon to avoid penalties under any federal, state, local or other tax statutes or regulations, and do not resolve any tax issues in your favor.

- Interactive Brokers LLC is a member of NYSE FINRA SIPC

2023 YEAR-END TAX PLANNING FOR TRADERS

green TraderTax

October 18, 2023, @ 12:00 pm ET
for 60 minutes
(Interactive Brokers)

Robert A. Green, CPA

- CEO (bio)
- Green & Company, Inc.
- GreenTraderTax.com

green TraderTax

Disclaimer

- Robert A. Green and GreenTraderTax are not affiliated with Interactive Brokers.

- IRS Circular 230 Notice: These statements are provided for information purposes only, are not intended to constitute tax advice that may be relied upon to avoid penalties under any federal, state, local, or other tax statutes or regulations, and do not resolve any tax issues in your favor.

Description

- Join Robert A. Green, CPA of GreenTraderTax.com, in his webinar on year-end tax planning for traders.

- Don't wait until tax time in April; arrange tax savings before year-end. Learn about deferring income, accelerating deductions, tax-loss selling, avoiding wash sale losses, paying estimated taxes, Roth IRA conversions, S-Corp payroll with health and retirement benefits, SALT cap workaround strategies for pass-through entities, and other tax-savings strategies.

- Mr. Green will cover recent tax law changes that affect traders.

DEFER INCOME AND ACCELERATE TAX DEDUCTIONS

- Consider deferring income and accelerating tax deductions if you don’t expect your taxable income to decline in 2024.
- Traders eligible for TTS in 2023 should consider accelerating trading business expenses, such as purchasing equipment with first-year expensing using Section 179 or bonus depreciation.
- Consider delaying sales of investments to defer capital gains. Defer bonuses at work.
- Many tax breaks depend on AGI levels including traditional or Roth IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest.
- Consider changes to your employment and filing status, too.

ACCELERATE INCOME AND DEFER CERTAIN DEDUCTIONS

- A TTS trader with substantial Section 475 ordinary losses should consider accelerating income to soak up the excess business loss (EBL).

- Try to advance enough income to use the standard deduction and take advantage of lower tax brackets.

- Stay below the threshold for unlocking various AGI-dependent deductions and credits.

- A higher income can lead to an Income-Related Monthly Adjustment Amount (IRMAA) adjustment, raising Medicare premiums.

ROTH IRA CONVERSION

- Consider changing a traditional IRA or 401(k) into a Roth IRA.
- Distributions from a standard retirement plan are taxed as ordinary income (not capital gains), whereas with a Roth IRA, distributions are tax-free.
- On the conversion date, the market value of the traditional retirement account is income taxed at ordinary rates.
- Futures growth and capital in the Roth IRA account are tax-free.
- If your retirement portfolio is depressed, you might enjoy recovery of values inside a Roth IRA.

ZERO TAX RATE ON LONG-TERM CAPITAL GAINS IN THE LOWEST TAX BRACKET

- If you have a low income, consider realizing long-term capital gains by selling open positions over 12 months.
- The 2023 long-term capital gains rates are 0% for taxable income in the 10% and 12% ordinary tax brackets.
- The 15% capital gains rate applies to the regular middle brackets, and the top capital gains rate of 20% applies to the top 37% ordinary income bracket.
- Remember, if you go $1 over the zero-rate bracket, all the long-term gains are subject to the 15% capital gains rate; it doesn’t work like progressive marginal ordinary tax brackets.

BUSINESS EXPENSES

- Traders eligible for trader tax status (TTS) are entitled to business expenses and home-office deductions. The home office deduction requires income, except for the mortgage interest and real property tax portion.

- The Tax Cuts and Jobs Act (TCJA) expanded first-year business property expensing; traders can deduct 100% of these costs in the year of acquisition, providing they place the item into service before year-end.

- Traders with TTS in 2023 may consider going on a shopping spree before Jan. 1, 2023. If you cannot be sure you will qualify for TTS in 2024, there is no sense in deferring TTS expenses.

SALT CAP WORKAROUND

- TCJA capped state and local income, sales, and property taxes (SALT) at $10,000 per year ($5,000 for married filing separately) and did not index it for inflation.

- About 29 states enacted SALT cap workaround laws. Search "(Your state) SALT cap workaround" to learn the details for your state. Most states follow a blueprint approved by the IRS.

- Generally, elect to make a "pass-through entity" (PTE) payment on a partnership or S-Corp tax return filed by your business. It doesn't work with a sole proprietorship filing a Schedule C.

SALT CAP WORKAROUND

- The partnership or S-Corp deducts the state PTE payment as a business expense.

- The state schedule K-1 displays the PTE payments as a tax credit. Most states offset the individual's state income tax liability with that PTE credit.

- Essentially, you convert a non-deductible SALT itemized deduction (over the cap) into a business expense deducted from gross income.

- Act well before year-end; otherwise, you might delay the benefit to next year.

REIMBURSED AND UNREIMBURSED BUSINESS EXPENSES

- **Employee business expenses:** Ask your employer if they have an accountable plan for reimbursing employee-business costs. You must "use it or lose it" before the end of the year. TCJA suspended unreimbursed employee business expenses. TTS S-Corps should use an accountable plan to reimburse employee business expenses since the trader/owner is its employee.

- **Unreimbursed partnership expenses:** Partners in LLCs taxed as partnerships can deduct unreimbursed partnership expenses (UPE). That is how they usually deduct home office expenses. UPE is more convenient than an S-Corp accountable plan because the partner can arrange the UPE after year-end. The IRS doesn't want S-Corps to use UPE.

STANDARD DEDUCTION

- The standard deduction for married couples filing jointly for the tax year 2023 rises to $27,700, up $1,800 (about 7%) from $25,900 in 2022.

- For single and married individuals filing separately, the standard deduction rises to $13,850 for 2023, up $900 from $12,950 in 2022, and for heads of households, the standard deduction will be $20,800 for the tax year 2023, up $1,400 from $19,400 in 2022.

- Many taxpayers use the standard deduction, simplifying their tax compliance work. Don't overlook the impact of these deductions on state tax filings, where you might get some tax relief.

CHARITABLE CONTRIBUTIONS

- Consider bunching charitable contributions with donor-advised funds.

- You can donate appreciated securities to charity. You get a charitable deduction at the fair market value and avoid capital gains taxes. (This is a strategy billionaires use, which you can use.)

- Consider directing your traditional retirement plan to make “qualified charitable distributions.” That satisfies the required minimum distribution (RMD) rule and is not taxable income. It’s the equivalent of an offsetting charitable deduction, allowing you to take the standard deduction rather than itemize charitable contributions.

SECURE ACT 2.0 & RMDs

- "Required minimum distributions (RMDs) are the minimum amounts you must withdraw from your retirement accounts each year. You generally must start taking withdrawals from your traditional IRA, SEP IRA, SIMPLE IRA, and retirement plan accounts when you reach age 72 (73 if you reach age 72 after Dec. 31, 2022)."

- https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs

- https://www.forbes.com/sites/leonlabrecque/2023/03/30/secure-20s-new-rule-on-iras-and-charity-can-really-pay-off

- https://taxnews.ey.com/news/2023-0172-enactment-of-the-secure-act-20-brings-some-important-changes-for-certain-charities-and-donors

ESTIMATED INCOME TAXES

- Taxpayers should pay federal and state estimated taxes owed by Jan. 15, 2024, and the balance by April 15, 2024. (The Q3 date was Sep. 15, 2023).
- Many traders skip making quarterly estimated tax payments during the year, figuring they might incur trading losses later in the year.
- They can catch up with the Q4 estimate due by Jan. 15, 2024, but might still owe an underpayment penalty for Q1 through Q3 quarters.
- Some rely on the safe harbor exception to cover their prior year's taxes. (See Traders Should Focus On Q4 Estimated Taxes Due Jan. 18.)

TAX-LOSS HARVESTING

- If you have an investment or trading portfolio, you can reduce capital gains taxes via “tax-loss harvesting” before the year’s end.
- If you realized significant capital gains year-to-date in 2023 and have open positions with substantial unrealized capital losses, consider selling some losing positions to reduce 2023 taxes on capital gains.
- Be sure to wait 30 days to repurchase those securities to avoid wash sale loss adjustments, which would postpone the 2023 year-end tax loss to 2024, thereby defeating the concept of tax loss selling.

TAX-LOSS HARVESTING

- You don’t have to wait if you buy a similar security, providing it’s not “substantially identical.”

- For example, an exchange-traded fund (ETF) like SPY is substantially identical to options on SPY (the derivative) but not to other ETFs that track the S&P 500.

- The symbol SPX is a stock index future, a Section 1256 contract, which is not a security, so that’s okay to use to avoid wash sales.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.

AVOID YEAR-END WASH SALE LOSS ADJUSTMENTS

- Taxpayers should report wash sale (WS) loss adjustments on securities based on "substantially identical" positions across all accounts, including IRAs.

- Substantially identical means equity, an option on that equity (equity option), and those options at different exercise dates.

- Conversely, brokers assess WS only on identical positions per the one account and report on the 1099-B for that account.

- Active securities traders should use a trade accounting program (i.e., TradeLog) to identify potential WS loss problems across all their accounts, especially going into year-end.

AVOID YEAR-END WASH SALE LOSS ADJUSTMENTS

- In taxable accounts, a trader can “break the chain” by selling the position before year-end and not repurchasing a substantially identical position 30 days before or after in any taxable or IRA accounts.

- Avoid WS between taxable and IRA accounts throughout the year, as that is a permanent WS loss.

- Starting a new entity effective Jan. 1, 2024, can break the chain on individual account WS at year-end 2023, provided you don’t purposely avoid WS with the related party entity. The new entity can also elect Section 475 MTM.

TAX EFFICIENT SALES

- If you want to sell some of your portfolios, consider taking long-term capital gains subject to lower tax rates (0%, 15%, and 20%) vs. short-term capital gains taxed at ordinary rates.
- Consider using the "specific identification accounting method" vs. first-in-first-out.
- See FIFO vs. Specific Identification Accounting Methods.

STRADDLES AND THE CONSTRUCTIVE SALE RULES

- The IRS has rules to prevent the deferral of income and acceleration of losses in offsetting positions that lack sufficient economic risk.
- These rules include straddles, the constructive sale rule, and shorting against the box. Also, be aware of the “constructive receipt of income” — you cannot receive payment for services, turn your back on that income, and defer it to the next tax year.
- Selling the losing legs on a complex options trade with offsetting positions can trigger the straddle loss deferral rules.

NET INVESTMENT INCOME TAX

- Many taxpayers are surprised by the Affordable Care Act's 3.8% net investment tax (NIT) on net investment income (NII).

- NIT only applies to individuals with NII and modified adjusted gross income (MAGI) exceeding $200,000 single, $250,000 married-filing jointly, or $125,000 married filing separately. The tax applies to NII over the MAGI threshold. Unfortunately, the IRS does not index these thresholds for inflation.

- NII includes portfolio income, capital gains, and Section 475 ordinary income and losses. NII does not include distributions from IRAs or most other retirement plans.

TRADER TAX STATUS (TTS)

- Traders who qualify for TTS in 2023 may accelerate trading expenses into that qualification period as sole proprietors or entities.

- Those who don’t qualify until 2024 should try to defer trading expenses until then.

- Traders may also capitalize and amortize (expense) Section 195 startup costs and Section 248 organization costs in the new TTS business, going back six months before commencement.

- TTS is a prerequisite for electing and using Section 475 MTM accounting.

SECTION 475 MTM ELECTION

- TTS traders choose Section 475 on securities to be exempt from wash-sale loss rules and the $3,000 capital loss limitation and be eligible for the 20% QBI deduction.

- To make a 2023 Section 475 election, individual taxpayers had to file an election statement with the IRS by April 18, 2023 (March 15, 2023, for existing S-Corps and partnerships). If they filed that election statement on time, they must complete the election process by submitting a 2023 Form 3115 with their 2023 tax return.

- Those who missed the 2023 election deadline may want to consider the election for 2024. Capital loss carryovers are a concern — they can be used against capital gains but not Section 475 ordinary income.

- The 475 election remains in effect each year until it is revoked in the same manner as the election was made.

SECTION 481(a) ADJUSTMENT

- When electing Section 475 MTM for 2024, a trader's section 481(a) adjustment is the unrealized capital gain or loss on TTS positions as of Dec. 31, 2023, the prior tax year.

- If the trader doesn't qualify for TTS in 2023, then there is no Section 481(a) adjustment for Jan. 1, 2024, as a 481(a) adjustment does not apply to investment positions.

- A 481(a) ordinary loss for 2024 is generally better than a capital loss carryover.

EXCESS BUSINESS LOSSES AND NET OPERATING LOSSES

- TTS traders with a Section 475 election might incur ordinary business losses.
- TCJA introduced an “excess business loss” (EBL) limitation, with the excess being an NOL carryforward.
- TCJA limited NOL carryforwards to 80% of the subsequent year’s taxable income.
- The inflation-adjusted 2023 EBL is $578,000 (married)/$289,000 (other taxpayers).

20% DEDUCTION ON QUALIFIED BUSINESS INCOME

- TCJA introduced a 20% qualified business income deduction (QBI), which applies to pass-through businesses, including sole proprietorships, partnerships, and S-Corps.

- On a QBI of $100,000, the owner might deduct up to $20,000.

- QBI includes Section 475 ordinary income, less TTS expenses, and excludes capital gains, portfolio income, and forex trading income.

- Trading is a “specified service trade or business” (SSTB), which means an income threshold and cap applies.

20% DEDUCTION ON QUALIFIED BUSINESS INCOME

- The QBI income threshold is $364,200/$182,100 (married/other taxpayers) for 2023. It's adjusted annually for inflation.

- There is also a phase-out range above the threshold of $100,000/$50,000 (married/other taxpayers). The threshold plus the phase-out is the income cap.

- The W-2 wage and property basis limitations apply within the phase-out range. TTS traders with an S-Corp usually have wages, whereas sole proprietor traders do not. In this case, wages help increase the QBI deduction.

- If your taxable income from SSTBs is over the income cap, there is no QBI deduction.

TAX PLANNING FOR S-CORPS

S-CORP OFFICER COMPENSATION

- TTS traders use an S-Corp to arrange health insurance and retirement plan deductions.

- These deductions require earned income or self-employment income. Unlike trading gains, which are unearned income, a TTS S-Corp salary is earned income.

- S-Corps pay officer compensation in conjunction with employee benefit deductions through payroll tax compliance done before year-end 2023.

S-CORP HEALTH INSURANCE

- S-Corps may only deduct health insurance for the months it was operational and qualified for TTS. Employer-provided health insurance, including Cobra, is not deductible.

- The S-Corp reimburses the employee/owner through the accountable reimbursement plan before the end of the year. Add the health insurance reimbursement to taxable wages, but do not withhold social security or Medicare taxes from that portion of W-2 compensation.

- The officer/owner takes an AGI deduction for health insurance on their tax return.

S-CORP RETIREMENT PLAN CONTRIBUTION

- TTS S-Corps can unlock a retirement plan deduction by paying sufficient officer compensation in December 2023 when results for the year are evident.

- Net income after deducting wages and retirement contributions should be positive.

- If you want to, you must establish a Solo 401(k) retirement plan for a TTS S-Corp with a financial intermediary before the year's end.

- Plan to pay the 100%-deductible "elective deferral" amount up to a 2023 maximum of $22,500 (or $30,000 if age 50 or older with the $7,500 catch-up provision) with the December 2023 payroll. That elective deferral is due by the end of January 2024.

S-CORP RETIREMENT PLAN CONTRIBUTION

- You can fund the 25% profit-sharing plan (PSP) portion of the S-Corp Solo 401(k) up to a maximum of $40,500 (subject to IRS increase) by the 2023 S-Corp tax return due date, including an extension, which means September 15, 2024.

- The maximum PSP contribution requires wages of $162,000 ($40,500 divided by a 25% defined contribution rate).

- The maximum contribution for those under age 50 is $63,000 for 2023. For those 50 or older, it's $70,500 for 2023.

- Tax planning calculations will show the projected outcome of the various options of income tax savings vs. payroll tax costs.

Solo 401(k) Roth

- Consider a Solo 401(k) Roth for the elective-deferral portion only, where the contribution is not deductible, but the contribution and growth within the Roth are permanently tax-free.

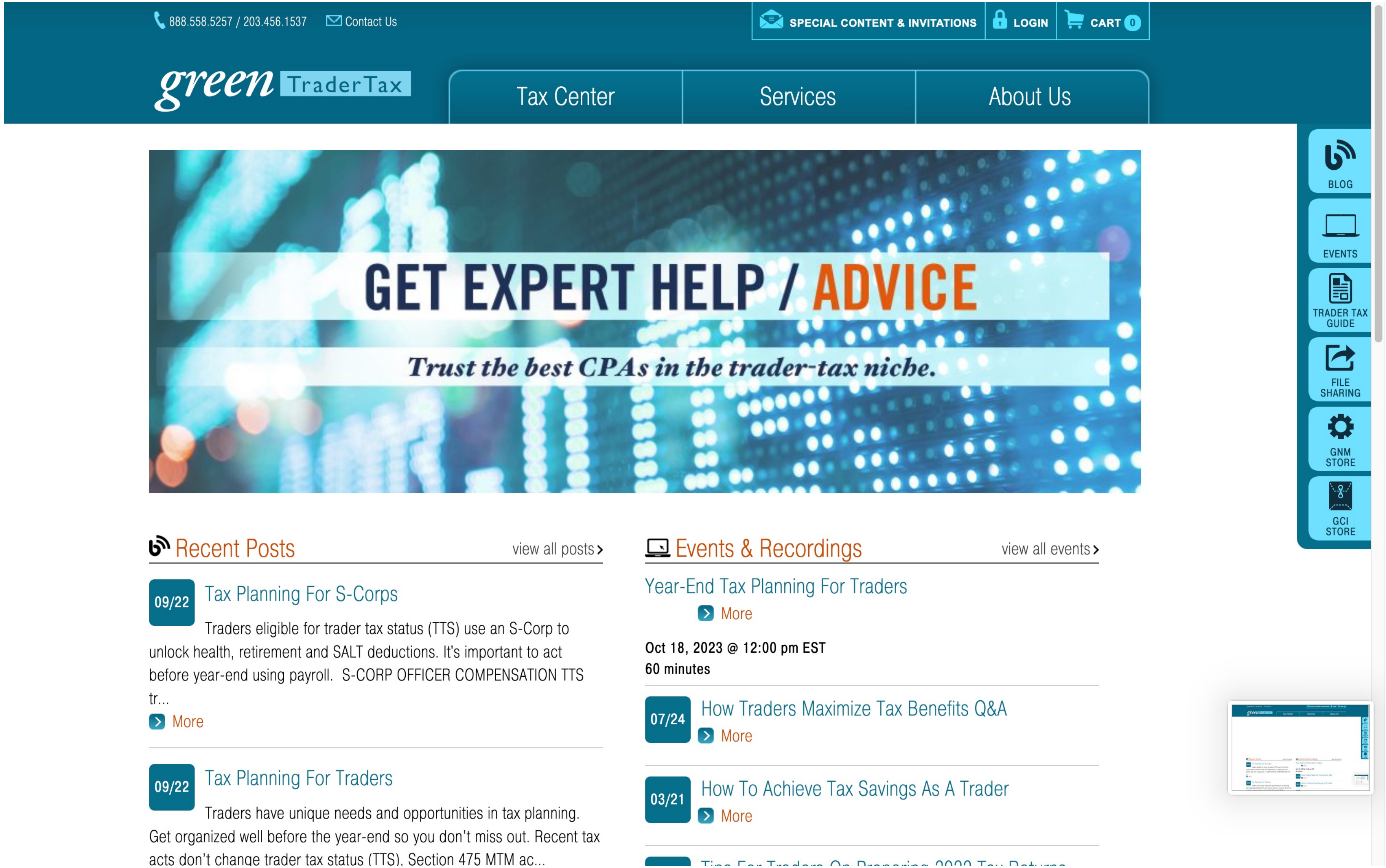
- The profit-sharing portion cannot be a Roth but a traditional plan.

- Traditional plans have a tax deduction upfront, and all distributions are subject to ordinary income taxes in retirement.

Contact us

- Thank you for attending this Webinar or watching the recording. Visit www.GreenTraderTax.com for additional information.

- Email your questions to info@gnmtradertax.com.


888.558.5257 / 203.456.1537
Contact Us
SPECIAL CONTENT & INVITATIONS
LOGIN
CART 0
green TraderTax
Tax Center
Services
About Us
GET EXPERT HELP / ADVICE
Trust the best CPAs in the trader-tax niche.
BLOG
EVENTS
TRADER TAX GUIDE
FILE SHARING
GNM STORE
GCI STORE
Recent Posts
view all posts
09/22
Tax Planning For S-Corps
Traders eligible for trader tax status (TTS) use an S-Corp to unlock health, retirement and SALT deductions. It's important to act before year-end using payroll. S-CORP OFFICER COMPENSATION TTS tr...
More
09/22
Tax Planning For Traders
Traders have unique needs and opportunities in tax planning. Get organized well before the year-end so you don't miss out. Recent tax acts don't change trader tax status (TTS). Section 475 MTM ac...
Events & Recordings
view all events
Year-End Tax Planning For Traders
More
Oct 18, 2023 @ 12:00 pm EST
60 minutes
07/24
How Traders Maximize Tax Benefits Q&A
More
03/21
How To Achieve Tax Savings As A Trader
More