



TRADER TAX COACH

**Tax News for the
Active Trader**

Trader Tax Report

December, 2012

2013 Tax Outlook: Facing the “Fiscal Cliff”

The 2012 election left us with the same President, the same Democratic controlled Senate, and the same Republican controlled House of Representatives. But 2013 brings several new challenges. That’s because several important tax provisions are scheduled to expire at the end of the year, in what some observers are calling “**Taxmageddon**” and others are calling a “**fiscal cliff**”.

Expiration of the Bush Tax Cuts:

If Washington can’t find political agreement to extend them, top rates on ordinary income will return to their previous level, rising from 35% to 39.6%, top rates on capital gains will rise from 15% to 20%, and

top rates on qualified dividends will rise from 15% to 39.6%.

Payroll Tax Holiday

The 2% payroll tax holiday is set to end. This will mean as much as \$1000 in additional tax on workers earning \$50,000 a year.

Alternative Minimum Tax

The AMT “patch” will expire, subjecting millions more Americans to AMT.

Medicare Tax Provision

As Obamacare takes effect, high income earners will be hit with an additional 0.9% tax on earned income and a 3.8% tax on investment income!

Right now, taxpayers are

waiting for Washington to act. And you can be sure that I’ll be watching closely to see how it all affects your taxes!

What follows is a summary of some of the future tax hikes you can expect and some suggestions for avoiding them where possible. I look forward to discussing these threats and helping craft the appropriate response to **SHRINK YOUR TAXES!**

Tax Brackets Uncertain

If Congress can’t agree to extend the Bush tax cuts, rates will rise automatically in 2013. Traditional tax planning wisdom suggest that if rates are set to rise, you should consider timing (continued on page 2)

Should You Incorporate Your Trading Business

I get asked a lot of questions but none more frequently than should a trader incorporate their trading business. Since it comes up so often, I thought I’d address it here.

First of all, you do not need to incorporate in order to have trader tax status. If you don’t incorporate, you will be classified as a sole-proprietor and need to file a schedule C to claim your trading expenses. You will get most of the tax deductions that an incorpo-

rated trading business will get and won’t have the extra expense of running an entity.

That being said, here are some instances where it might make sense to incorporate your trading business:

Audit Concern

Sole proprietors are audited about 4 times more than LLCs, S-Corps, and Partnerships that file separate tax returns. Most of the trader tax cases that I have seen go to audit are from

traders who file as sole proprietors. If you are concerned about an audit, you might consider incorporation.

Retirement Plan & Health Care Deductions

Whether you incorporate or not, your trading gains will be classified by the IRS as “unearned income”. What this means is that you won’t be able to fund a retirement plan or take healthcare deductions (continued on page 2)

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2013 Tax Outlook: Facing the “Fiscal Cliff”

...your income and deductions where possible, for maximum tax advantage. If you expect to earn less in 2013, you should pay deductible expenses this year, as much as you can. If you expect to earn more in 2013, consider accelerating income into this year to subject it to tax now. You might also delay paying some expenses until next year, to the extent possible. The problem now is that we can't be sure which way rates are headed. We'll just have to wait and see which plan prevails.

Itemized Deductions Going Down

Over the longer term, President Obama has proposed limiting the value of itemized deductions to just 28%, even for taxpayers in higher brackets. Republican candidate Romney pro-

posed limiting itemized deductions from all sources to a certain fixed number, such as \$25,000 or \$40,000, and this idea is also gaining favor. Either of these would amount to a stealth tax increase and cut the value of deductions for medical expenses, state and local taxes, mortgage interest, and even charitable gifts.

Tax Strategies For Health Care Costs

Paying for medical care becomes harder every year. The recent healthcare reform act improves coverage and extends it to more Americans, but actually makes it harder to deduct unreimbursed expenses. It also limits contributions to employer sponsored flexible spending plans to \$2500 a year.

If you're free to select your own coverage, consider choosing a “high deductible

health plan” and opening a Health Savings Account. These arrangements bring down premium costs and use pre-tax dollars for out of pocket costs, bypassing the floor on AGI. If you're self employed, consider establishing a Medical Expense Reimbursement Plan, or MERP. These plans let you pay family medical expenses with pre-tax business dollars. They may even help you avoid self employment tax.

Audit Odds Still Low

IRS audit odds are increasing, from 1 in 200 returns for 2000 to roughly 1 in 100 for 2010. But your chance of getting audited is still minimal. Don't take low audit rates as an invitation to cheat! But don't let fear of an audit stop you from taking every deduction you're entitled to.

(continued on page 3)

Should You Incorporate Your Trading Business (cont'd)

... because you need “earned” income in order to qualify for these deductions. If you are consistently profitable, you might consider incorporating your trading business and paying yourself a W-2 salary in order to create “earned” income. Your business gets a deduction for the wages paid and you will be able to fund a retirement plan (with pre-tax dollars), as well as claim a deduction for your health-care premiums.

Part Time Trader With W-2 Income

If you are employed full time or run another business, you may open yourself up to closer scrutiny by the IRS. One of the things the IRS looks at is if you are running a business like operation. If they see W-2 income, they may take a closer look at your trading business and question your trader tax status.

If you incorporate, your trading business will be considered a separate entity with it's own separate tax return. The activity in the entity will be 100% devoted to trading, thus making it less likely that it attracts IRS attention.

Avoid Form 8949

Finally, trading entities are exempt from the requirements of Form 8949. This can save a lot of time when preparing your taxes!

off the mark.com by Mark Parisi



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You have to pay your taxes every year . You just don't have to leave a tip!



If you are considering incorporating your trading business, we offer a **FREE half hour consultation**. We'll help you determine which entity is right for your situation, or if you even need to incorporate at all.

Call us at 813-746-8208 to schedule your FREE consultation or you can email us at:

info@TraderTaxCoach.net



2013 Tax Outlook: Facing the “Fiscal Cliff”

New Tax on Dividend and Investment Income

The healthcare reform act imposes a new “unearned income Medicare Contribution” of 3.8%, beginning on January 1, 2013, on dividend and interest income, for taxpayers earning more than \$200,000 (\$250,000 for joint filers).

This tax may make municipal bonds and money market funds more attractive relative to fully taxable vehicles. However, the recession has jeopardized state and local tax revenues, so there may be credit quality issues to consider.

You might consider deferred annuities and permanent life insurance for fixed income portions of your portfolio.

Consider favoring stocks that pay little or no dividend in taxable accounts and holding stocks paying higher dividends in tax deferred accounts.

Use Permanent Life Insurance for Tax Free Income

Permanent life insurance offers a variety of investment options for accumulating cash values, along with tax free withdrawals and loans so long as you keep the policy in force.

New Tax on Real Estate Income

The “unearned income

Medicare contribution” of 3.8% also applies to income from real estate and taxable gains from the sale of your primary residence. There are several strategies you can use to minimize taxable real estate income, including favoring tax deductible “repairs” over depreciable “improvements” and cost segregation strategies to maximize depreciation deductions.

Higher Tax on Capital Gains

Tax on long term capital gains is currently capped at 15%, even if your regular tax rate is higher. President Obama has proposed letting that rate return to Clinton era 20% for those earning over \$200,000 (\$250,000 for joint filers). We’ll just have to wait for Washington to act on the “fiscal cliff” to see where 2013 rates fall.

The recent healthcare reform act also imposes a new “unearned income Medicare contribution” tax of 3.8% on capital gains starting in 2013.

If you have appreciated assets such as securities, real estate, or a business you’d like to sell, consider doing so before the new rates become effective. Check with us first, to discuss if you can use tax free exchanges, installment sales, charitable trusts, or similar strategies to minimize or even eliminate tax on those sales.

Uncertainty on Estate Tax

The estate tax actually “died” for 2010. Washington brought it back to life, with a 35% tax applying on estates over \$5.12 million per person. However, the new system applies only for 2011-2012. If Washington doesn’t act to extend it, the tax reverts to 55% on estates over \$1.0 million, beginning January 1, 2013. This means that smart, flexible estate planning will still be part of most affluent families plans.

Next Steps

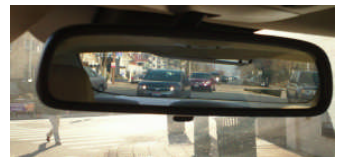
I’m sure you appreciate this brief outline of upcoming tax threats. While smart intelligence is crucial, intelligence alone is useless without the right action. If the threats I’ve discussed so far have you worried about your financial future, you owe it to yourself to take a more comprehensive look at your taxes and finances, so that we can determine exactly which concepts and strategies will work from here.

Our tax planning service starts with a thorough look at all your income and expenses. Our goal is to ferret out every legal deduction, credit, loophole and strategy available to help you minimize your tax bill.

Call us at 813-746-8208 for more information on how tax planning can help you.



Tax Planning



Would you drive your car with just using your rearview mirror?

Tax preparation software, and even most professional tax preparers, do a fine job of putting the right numbers in the right boxes on the right forms. But then they call it a day. That’s like driving your car using just your rearview mirror.

If you really want to pay less in taxes, you can’t settle for just recording history. You need someone who can help you write it-with a complete menu of proactive concepts and strategies that ordinary tax preparers overlook.

Tax planning is your key to beating the IRS, the legal way. No “red flags”. No “gray areas”. No “aggressive moves”. Everything is court tested and IRS approved.

Call 813-746-8208 for your **FREE tax analysis**. I’ll find the mistakes and missed opportunities that are costing you thousands, and show you how proactive planning can rescue those lost dollars!

Tax News for the Active Trader

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Size DOES matter,
especially when it's your taxes!



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Everyone Knows That Trading is Stressful Enough. Your Taxes Don't Have To Be!



Trader Tax Coach is a full service tax and accounting firm specializing in helping traders from all over the United States use the IRS code to legally maximize their tax deductions. Everything we do is Tax Court tested and IRS approved. This means no "red flags", no "gray areas", and no "aggressive" moves. We help traders slash their taxes the **LEGAL** way by finding every hidden deduction and every tax credit that they are entitled to take.

We are much more than just another accounting firm. We go beyond just putting the right numbers in the right boxes. We **PROACTIVELY** search for ways to save you money, either personally or through your trading business. Ask yourself, "When was the last time my current tax professional came to me with an idea to lower my taxes"?

Some of the services we provide include the following:

- **Trader Tax Preparation**
- **Mark to Market Elections**
- **Trader Tax Planning and Advice**
- **Trader Incorporation Services**
- **Bookkeeping Services**
- **Health & Retirement Plan Consultation**
- **Audit Assistance**

Our fees are extremely competitive and include **UNLIMITED** consultations throughout the year. If you have any tax questions, you can always contact us with the security of knowing that you will not get billed for our time.

A Client Story Worth Sharing

I thought I'd share this story with you as it makes a very good point about trader taxation: **not all CPAs are aware of what trader status is!**

I brought on a new client recently who contacted me after viewing my videos on youtube and reading some articles on my website.

She is an active trader and has been active for many years but was unaware of trader tax status until she saw one of my videos.

Her big complaint (and rightly so) is that the brokerage firm she trades at

NEVER said a word about using trader status to reduce her taxes and her CPA never told her about it either.

The CPA, like most tax professionals, just took the information that she gave him, filled it in the appropriate boxes, and handed her a bill.

Needless to say, after our conversation and a review of her taxes that she'd already filed, I recommended amending her last 2 years worth of tax returns and claiming her trading related expenses she is entitled to deduct. (Her margin inter-

est alone was \$25,000).

When it was all said and done, I was able to drop her tax bill **LEGALLY** from around \$19,100 to \$9,200, getting her a refund of around \$10,000! Can you say client for life?

The bottom line is this: if you are a trader, you need to work with someone who specializes in trader tax status to make sure you get every **LEGAL** deduction. Also don't assume your trader friends know about trader tax status. They may be unaware just like my client used to be and over-paying their taxes.



Don't Keep Us A SECRET!

Our business thrives on the constant stream of referrals from our tax clients. If you know other traders who could benefit from our trader tax expertise, please don't keep us a secret. We relish the opportunity to be of service to them.