



TRADER TAX COACH

Tax News for the Active Trader

Trader Tax Report

September, 2012

ObamaCare and the Tax Impact on Traders

Now that the Supreme Court has upheld ObamaCare, a series of tax hikes are poised to take effect. Some of these tax hikes are starting in 2013, so traders should start planning now to minimize the effects. I am going to cover three of the tax increases set to start in January 2013.

First, starting in 2013, a 0.9% surtax on high income earners will begin. Single earners with wages exceeding \$200,000 and couples earning over \$250,000 will have to pay this tax. This surtax will apply to the self employed too.

Second, unearned income will be subject to a 3.8% Medicare surtax for single filers with modified gross incomes over \$200,000 and couples earning over \$250,000. The levy applies to the lesser of the filer's

net investment income of the excess of modified AGI over the thresholds. This is the one new tax that affects traders the most so let's look at some possible scenarios:

SCENARIO ONE:

Single Filer
AGI before trading gains: \$150,000
Trading Gains: \$100,000
AGI: \$250,000
Tax Due:
Excess over \$200,000: \$50,000
Investment Income: \$100,000
Lesser Amount: \$50,000
Tax Due: \$50,000 X .038 = **\$1900**



ObamaCare 411

This is in addition to any other taxes due!

SCENARIO TWO:

Married Couple
AGI before trading gains: \$140,000

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How to Qualify As A Trader In Securities

You don't have to be a pit trader or own a seat on the exchange to qualify as a trader in securities. However, there are certain requirements that the IRS looks for in determining if you'll qualify as a securities trader. Meet these requirements and you'll reap the favorable tax benefits of trader status. Miss any one of the following requirements and the IRS will likely deny your trader status, costing you thousands

of dollars in lost tax deductions.

So what exactly does the IRS look for in determining if you meet trader status? Unfortunately there is no clear definition of how to qualify for trader status. Just like the "Pirate Code" in the movie Pirates of the Caribbean, there aren't rules but more like guidelines on how to qualify. According to IRS Topic 429, to

qualify as a trader in securities you must:

1. Seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation
2. Your activity must be substantial
3. You must carry on your activity with continuity and regularity

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ObamaCare and the Tax Impact on Traders (cont'd)

AGI: \$260,000
 Tax Due:
 Excess over \$250,000:
 \$10,000
 Investment Income:
 \$120,000
 Lesser amount: \$10,000
 Tax Due:
 \$10,000 X .038 = **\$380**

SCENARIO THREE:

Married Couple
 AGI before trading gains:
 \$100,000
 Trading Gains: \$450,000
 AGI: \$550,000
 Tax Due:
 Excess over \$250,000:
 \$300,000
 Investment Income:
 \$450,000
 Lesser amount: \$300,000
 Tax Due:
 \$300,000 X .038 = **\$11,400**

Basically, if you are a successful trader and it is your only source of income, you are going to end up paying an additional 3.8% on your trading gains over the thresholds. How is that for "affordable care"?

The third tax increase that traders have to look forward to in 2013 is an increase in the AGI floor for deducting medical expenses on Schedule A. Starting next year the floor jumps from 7.5% to 10% of AGI.

This means that in order to deduct your excess medical expense on your Schedule A, the expenses will have to exceed 10% of your AGI to be deductible. For example, if your AGI is \$200,000, you will be able to deduct the amount of your medical expenses that exceeds \$20,000. If your out of pocket medical expenses are \$30,000, you can deduct \$10,000 from your taxes on your Schedule A.

You miss out on a \$20,000 deduction due to this floor on the Schedule A!

There are ways that you can deduct **100% of your out of pocket medical expenses**. It's called a Section 105 plan. Please see my video on this subject:

<http://www.youtube.com/watch?v=D8ix5qAzUM8>

Republicans are vowing to repeal the entire health reform law, but they'll need to retake the White House and Senate and retain the House this November to have any shot at doing so. In the mean time, traders need to start planning now to minimize the effect of these three tax increases that are coming in 2013.

If you have any questions on how the new ObamaCare taxes affect you, please contacts us at our office at 813-746-8208 or email us at info@tradertaxcoach.net.

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When I grow up, I'll apply these skills to my job on Wall Street.

"There is nothing wrong with a strategy to avoid the payment of taxes. The Internal Revenue Code doesn't prevent that."

Chief Justice
 William Rehnquist
 Supreme Court 1986-2005

How to Qualify As A Trader In Securities (cont'd)

As you can see, the IRS does not clearly define what level your trading needs to be at in order to qualify for trader status (guidelines not rules). Fortunately, we've been able to gather what the IRS specifically looks for from the trader tax court cases over the years. These are the 5 Golden Rules of Trader Status:

1. Short holding periods (intraday or daily is the best)
2. Frequency of your trades (high frequency and continuous through out the year with NO LAPSES in your trading)
3. Dollar amount (significant portion of your liquid net worth tied up in trading)
4. Extent that you trade to produce income for a living (run it like a business)
5. Amount of time you spend trading or studying

the markets (4-6 hours a day at a minimum)

Follow the above rules and you shouldn't have to worry about whether you qualify for trader status. If you are still not certain, fill out our free Trader Status Evaluation form and we will help you determine if you meet the requirements.



Do you qualify as a trader in securities?

To find out, fill out our FREE TRADER ANALYSIS:

http://www.tradertaxcoach.net/Trader_Status.html

Trader Spotlight: Fari Hamzei



Fari Hamzei is founder of Hamzei Analytics, LLC, which provides

cutting-edge proprietary analysis and indicators to institutional and professional traders. He is a nationally ranked Market Timer (as ranked by Timer Digest) since 2004. He holds a BSE degree in financial engineering from Princeton University, and was a director of strategic planning at Northrop Grumman Corp., Aircraft Group. He is frequently quoted by CNBC, Bloomberg, RealMoney, and other financial media outlets.

How long have you been trading full time?

I started trading back in 1993 and went full time in 1999. I got introduced to trading from one of my best friends at Princeton.



Hamzei Analytics, LLC was launched in October 1998 and since February 2001 has been providing proprietary institutional level indicators to experienced retail traders.

There are several different trading packages available:

Who were some of your early trading mentors?

Prof Burton Malkiel, Chairman of Economics Dept. at Princeton Univ, the world renowned author of the bestseller, A Random Walk Down Wall Street, encouraged me to study direct investments in broad market indices in my freshman year. Prof John Shelton, at UCLA Anderson Graduate School of Management, taught me options pricing theory. Prof Robert Whaley of Vanderbilt Owen Graduate School of Management is another. He created and published a protocol for deriving a uniform volatility index for any asset with liquid options, and generously shared that information with me.

What is your trading style?

Momentum. I look for special short term patterns for break outs and break

- **HFT Futures**
- **HFT Options**
- **HFT Premium**
- **HFT Futures +PBT**
- **Proprietary Indicators**
- **Proprietary Trading Systems**

All trading services include a real time dedicated chatroom, streaming audio, and real time trader alerts.

downs.

How do you handle the emotional roller coaster of trading?

Have a system and stick to it. Trading should be boring.

What do you think most traders spend too much time focusing on that really isn't all that important?

Too many charts and constantly messing with their indicators. Also spending too much time on Twitter, Stocktwits, and CNBC.

What advice would you give to a struggling trader?

Do not give up. Keep your bet size small until you learn how to trade. What is critical is the accumulation of knowledge. The key in the beginning is to **STAY IN THE GAME!** It doesn't happen overnight. Keep your bet size small. Traders usually struggle because they are trading too big of a position.

The services are designed for intermediate to advanced traders. It is not for new traders.

Hamzei Analytics also offers 10 of their Proprietary Indicators on eSignal and 15 on the TradeStation platform.

For more information go to www.HamzeiAnalytics.com.



HFT BONDS

Hamzei Analytics is launching HFT Bonds in mid September. HFT Bonds will offer real time analysis and trade ideas on bonds & notes and bond & note options This service is being run by George Cavaligos, a 30 year veteran of the CBOT floor.

HFT Bonds is offering institutional grade trading tools for the retail bond & note trader. Some of the features:

- Dedicated Chatroom
- Streaming Audio
- Streaming Twitter
- Real time trade alerts
- HD Video Player
- Put/Call Ratio for bonds coming in Q4

FREE One Month Trial for HFT Bonds!

For a limited time, Hamzei Analytics is offering a FREE trial to HFT Bonds chatroom.

To receive your free month, please email

HFT_BONDS

@HamzeiAnalytics.com

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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.

Filing Your Taxes As A Trader In Securities

The good news is there is no formal election to make to claim trader tax status. You'll place only your expenses on Schedule C (Income and Expenses from a Business). Your trading gains/losses will go on a Schedule D. This will look very strange to most tax professionals as they don't understand trader taxation rules but this is how it's done.

There are special forms to fill out by certain dates if you want to make the mark to market election.

We don't advise going it alone. If you make one mistake, the IRS can deny your trader tax status or mark to market elec-

tion, costing you thousands of dollars in lost deductions, as well as potential penalties and interest.

Shrink My Taxes & Trader Tax Coach can help you with the following services:

- Establishing trader tax status
- Electing mark to market (IRC Sect 475) & filing out the appropriate forms
- Trader entity consultation & Formation
- Trader Tax Preparation
- Trader Tax Planning

We will also review your previous 3 years worth of tax returns for **FREE!** If you were able to file as a trader but didn't, we can amend those returns to get immediate refunds.

Don't overlook this valuable service. The last client we did this review for ended up getting over \$12,000 back from the IRS!

If you are interested in taking advantage of this offer, call or email us today.



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.