

Excerpt from "Trader Types & Expenses – The Basics"

What are deductible expenses as a Trader?

As a Trader in Securities ("TIS") you are considered to be in a trade or business so any expense incident to the production of that income is deductible. Some examples of specific expenses for traders may be found in IRS Publication 535 – Business Expenses and the Instructions for Form 1040 Schedule C.

Here is a list of the type of expenses a TIS can expect to have. These expenses may be taken in full or partially based on their applicability to the trading business on a percentage basis. There is a tax adage that goes – *Pigs get fat while hogs get slaughtered*. That is a warning against deducting everything including the kitchen sink.

- Computers and software already loaded
- Software purchased subsequent to the purchase of a trading computer
- Multiple monitors for trading
- Specific software for your trading
- Mobile information device – cell phone or hot spot (percentage use)
- Trading research services – but not robo-trading, trade following automated trading or self-created trading systems (your time is not deductible)
- Office supplies
- Coaching and mentoring services
- Subscriptions to investment advisers, websites, periodicals
- Reference materials
- Seminars/webinars
- Travel to seminar – where the primary purpose is business not personal including meals where the travel is ordinary and necessary for trading purposes
- Continuing education – but not education that would qualify you for another trade or business
- Interest – credit cards used to purchase trading items
- Interest – margin interest charged by a brokerage
- Office furniture conducive to trading
- Home office – if used *regularly and exclusively* for your trading business; this represents a pro-rata share of you home costs or a flat rate of \$5 per square foot up to 300 sf; If qualified business use for a month is less than 15 days then that month is *excluded*. There are typically 22 trading days in a month.
- Entity formation fees – from your secretary of state and the third-party fees for filing the formation documents with your state
- Brokerage data fees – typically for "professional" designated entities
- Accounting/legal fees – tax compliance and planning
- Franchise/business tax associated with the trading business – some states have a minimum tax just for having an entity

- Vehicle expense for business use – all trading business mileage must be substantiated with a mileage log or other method (not percentage estimates). Taxpayers lose on vehicle expense audits most of the time and it is because they do not have adequate substantiation (proof) for that mileage or a valid business purpose.

Advanced expenses

- Health insurance benefits for employees or self-employed (no entity and filing on Schedule C)
- Retirement benefits
- Employees are paid a salary and retirement benefits are typically based upon a percentage of that salary
 - Quarterly and annual employment tax filings – Federal
 - State unemployment tax filings

This does not represent an exhaustive list. However, as noted in the vehicle section, these expenses must be **substantiated** according to IRS rules and regulations and the home office must be used "regularly and exclusively" for the trading business. Substantiation cannot be emphasized enough!! If two businesses are run out of the same area, each must be allocated up to a maximum of 300 square feet for the safe-harbor/simplified method.

As a TIS and even a mark to market trader ("MTMT"), all expenses are reported on Schedule C for the sole proprietor and on page 1 of the entity tax return, most being designated as "Other deductions" at the end of the expense section and then listed as an attachment to the tax return.

A MTMT with an entity and paying themselves a salary, with health benefits and a retirement plan will be looking at a substantial amount of trading profit going into Federal and State tax compliance.