

- The second easiest is to elect mark-to-market accounting method so wash sales do not apply.
 - Another method of reporting cost basis is the "specific share identification" method. IRS states that specific shares of *mutual fund* shares will be adequately identified by identifying to your broker the shares sold and then receiving written confirmation. Written confirmation is somewhat antiquated. Therefore, theoretically if you can adequately identify the shares to which a covered call applied, you may be able to avoid the wash sale rule as a TIS.
-

➤ What are deductible expenses as a Trader?

As mentioned previously, as a 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 could 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
- Multiple monitors for trading
- Specific software for your trading
- Mobile information device – cell phone or hot spot
- 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
- Reference materials
- Seminars/webinars
- Travel to seminar – where the primary purpose is business not personal
- Continuing education – but not education that would qualify you for another 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
- Brokerage data fees – typically for "professional" designated entities
- Accounting/legal fees – tax compliance and planning
- Franchise/business tax associated with the trading business
- Vehicle expense for business use – all trading business mileage must be substantiated with a mileage log or other method (not percentage estimates)

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. 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 MTMT, all expenses are reported on Schedule C for the sole proprietor and on page 1 of the entity tax return.

➤ **Are there any time deadlines for Traders?**

There are no specific dates with which a TIS should be concerned.

With that said, should a TIS desire to elect that his trading business utilize the MTM method of accounting, there are several critical dates to remember.

The MTM election is due with the filing of the unextended tax return – that is, filed on or before the original due date – or attached to a timely-filed extension and preferably mailed certified.

A new entity may elect MTM accounting by preparing the MTM election by the 15th day of the third month after the formation of the new entity and placing the election with its books and records – probably with the entity formation documents. Then, with the first-year tax return for the MTM entity, attach the MTM election to the tax return.

If a TIS wanted to trade inside an entity there are no dates that are critical to that decision either. As stated under the LLC section, by default, an LLC with one member is a single-member LLC ("SMLLC") that files as a sole proprietor on Form 1040 Schedule C. There are more than likely state filing requirements as well. If the LLC has more than one member then by default it is a partnership and Files Form 1065. A SMLLC or multi-member LLC can elect to be taxed as a corporation – either a flow-through S Corporation, by filing Form 2553, or a C Corporation by filing Form 8832, although the latter is not suggested for traders. An S Corporation election must be filed within 2½ months after the beginning of the year to be in effect for the current year.
