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November 9, 2021

# Green Trader Tax

## Year-End Tax Planning For Traders

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# YEAR-END TAX PLANNING FOR TRADERS

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Nov. 9, 2021 @ 12:00 pm ET  
for 60 minutes  
(Interactive Brokers)

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# Description

- 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 Q4 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.
- If Congress raises the top tax rates for 2022 on ordinary income and long-term capital gains, upper-income taxpayers might want to accelerate income.

# Overview

- Year-end tax planning for traders varies based on eligibility for trader tax status (TTS) in 2021 and 2022.
- There are different strategies to consider for investors, TTS traders using the capital gains method, and TTS traders using Section 475 MTM ordinary gain and loss treatment.
- TTS traders operate as sole proprietors, spousal LLC/partnerships, or LLC/S-Corps.

# DEFER INCOME AND ACCELERATE TAX DEDUCTIONS

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# Deferring income and accelerating tax deductions

- Consider the time-honored strategy of deferring income and accelerating tax deductions if you don't expect your taxable income to decline in 2022. Even if the tax rates are the same for 2021, the IRS will adjust the tax brackets for inflation. Traders can enjoy the time-value of money with income deferral.
- Year-end tax planning is a challenge for traders because they have wide fluctuations in trading results, making income difficult to predict. Those expecting to be in a lower tax bracket in 2022 should consider income deferral strategies. Conversely, a 2021 TTS trader with ordinary losses waiting to be in a higher tax bracket in 2022 might want to consider income acceleration strategies.
- If itemized deductions are below the standard deduction, consider a strategy to “bunch” them into one year and take the standard deduction in other years.

# ACCELERATE INCOME AND DEFER CERTAIN DEDUCTIONS

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# Accelerate income and defer certain deductions

- A TTS trader with substantial ordinary losses (Section 475) under TCJA's "excess business loss limitation" (EBL) for 2021 should consider accelerating income to soak up the allowable business loss to avoid a NOL carryover.
- Try to advance enough income to use the standard deduction and take advantage of lower tax brackets. Be sure to stay below the thresholds for unlocking various types of AGI-dependent deductions and credits.
- You may wish to convert a traditional IRA into a Roth IRA before year-end to accelerate income.

# Roth IRA conversions

- You may wish to convert a traditional IRA into a Roth IRA before the year-end.
- The conversion income is taxable “ordinary income” in 2021.
- Avoid the 10% excise tax on early withdrawals before age 59 1/2 by paying the Roth conversion taxes outside the Roth plan.
- One concern is that TCJA repealed the recharacterization option, so you can no longer reverse the conversion if the plan assets decline.
- Roth IRA conversions have no income limit, unlike regular Roth IRA contributions.

# AVOID WASH SALE LOSS ADJUSTMENTS

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# Avoid wash sale loss adjustments

- Taxpayers must report wash sale (WS) loss adjustments on securities based on substantially identical positions across all accounts, including IRAs. Conversely, brokers assess WS only on identical positions per the one account. Active securities traders should use a trade accounting program or service to identify potential WS loss problems, especially going into year-end.
- 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 otherwise a permanent WS loss. (Starting a new entity effective Jan. 1, 2022, can break the chain on individual account WS at year-end 2021 provided you don't purposely avoid WS with the related party entity.)

# Converting from WS to Section 475 MTM

- WS losses might be preferable to capital loss carryovers at year-end 2021 for TTS traders. A Section 475 election in 2022 converts year-end 2021 WS losses on TTS positions (not investment positions) into ordinary losses in 2022. That's better than a capital loss carryover into 2022, which might give you pause when making a 2022 Section 475 election. You want a clean slate with no remaining capital losses before electing Section 475 ordinary income and loss.
- (See [How To Avoid Taxes On Wash Sale Losses.](#))

# INVESTORS

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## Investment interest expense, the standard deduction and the SALT cap

- The 2017 Tax Cuts And Jobs Act (TCJA) suspended miscellaneous itemized deductions, including investment fees and expenses for investors and unreimbursed employee business expenses.
- After TCJA, the only itemized deductions for investors are margin interest expenses limited to investment income.
- TCJA roughly doubled the standard deduction, and with an inflation adjustment for 2021, it's \$12,550 for singles filers and married filing separately; \$25,100 for joint filers, and \$18,800 for "head of household" status.
- TCJA's \$10,000 cap on state and local taxes (SALT) leads many taxpayers to use the standard deduction.

# 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 year-end. 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.

# Inflation adjustments

- Consider inflation adjustments in income and capital gains tax brackets, various income thresholds and caps, retirement plan contribution limits, standard deductions, and more.
- (See [2021 Tax Brackets](#) and
- [IRS provides tax inflation adjustments for tax year 2021](#))

# Tax law favors trader tax status (TTS)

- TTS traders are better off; they deduct trading business expenses, startup costs, organization expenses, margin interest, borrow fees, and home office expenses from gross income.
- On Schedule C for sole proprietors, 1065 for LLC/partnerships and 1120-S for S-Corps.
- Brokerage commissions are transaction costs deducted from trading gains or losses; they are not separately-stated expenses.

# Transitioning from investor to TTS trader

- In 2021 with remote work arrangements due to the pandemic, many new traders entered the markets.
- Some achieved TTS for a partial year in 2021, whereas others won't qualify until 2022.
- If your TTS commences in 2022, you can capitalize on some hardware, software, and other intangible costs made in 2021 for depreciation and amortization expense with TTS's commencement in early 2022.

## Capitalize costs for deductions in 2022

- For example, on computers, monitors, and home office furniture contribute these costs at fair market value for TTS expensing in 2022.
- For some expenses like subscriptions, education, and software, capitalize those Section 195 startup costs.
- Section 195 allows expensing up to \$5,000 in 2022, with the rest deducted straight-line over 15 years.
- TTS traders can go back six-months before TTS inception for Section 195 costs and even further back for hardware costs.

## Year-end “tax-loss selling”

- Investors, and TTS traders using the default realization (cash) method, should consider “tax-loss selling” before year-end to reduce capital gains income and the related tax liability. Be careful to avoid wash sale loss adjustments (WS) on securities at year-end 2021, which defer the tax loss to 2022.
- Tax loss selling applies to securities, cryptocurrencies, forex, precious metals, and other financial instruments that are not mark-to-market (MTM) like in Sections 1256 or 475.
- For example, suppose you realize a capital loss in a taxable account on December 15, 2021, in Exxon stock and repurchase a substantially-identical position (Exxon stock or option) 30-days after that date. The WS loss defers to 2022 by adding the WS loss to the replacement position’s cost basis.

# Wash sale loss rules apply to securities only

- Wash sale losses do not apply to:
  - Section 1256 contracts (with mark-to-market treatment by default).
  - Cryptocurrencies (intangible property).
  - Forex (ordinary gain or loss).
  - ETF prepaid forward contracts (not a security).
  - Precious metals (collectibles held directly or in a publicly traded trust).



# IRS rules on offsetting positions

- 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 “constructive receipt of income” — you cannot receive payment for services, turn your back on that income, and defer it to the next tax year.

# Capital loss limitation and carryovers

- Report capital gains and losses on Schedule D, short-term vs. long-term separately, and next they offset each other. A consolidated net capital loss is limited to \$3,000 against ordinary income – the “capital loss limitation.” Excess net capital losses over the capital loss limitation is a “capital loss carryover” to subsequent tax years.
- Many traders mistakenly think they can only utilize \$3,000 of capital-loss carryovers each year going forward, so they worry it can take a lifetime to use up these losses.
- They don’t realize capital losses offset subsequent-year capital gains without limitation, which means if they remain in capital gains treatment (rather than electing Section 475 MTM ordinary income), they can use those capital losses.

# Capital loss carryovers

- For example, if your CLCO is \$25,000 going into 2022, and you have 2022 capital gains of \$30,000, then you'll have \$5,000 of net capital gains for 2022.
- Some traders mistakenly think individually generated capital-loss carryovers incurred before trading in a new pass-through entity will be lost.
- The new company can forgo a Section 475 election and pass-through capital gains on a Schedule K-1 to individual tax returns (Schedule D), where individual capital-loss carryovers offset them.

# Section 1256 loss carryback election

- If you incur a significant capital loss in Section 1256 contracts (i.e., stock index futures), consider a 1256 loss carryback election made on Form 6781 filed with your 2021 tax return.
- That allows you to amend the prior three-year tax returns to apply the 1256 loss against 1256 gains only.

## Take advantage of the 0% long-term capital gains rate

- If your 2021 taxable income is considerably under the capital gains tax bracket of \$80,800 for married and \$40,400 for unmarried individuals, then your long-term capital gains (LTCG) tax rate is 0%.
- For example, assume your taxable income for the married-filing joint is \$50,000 as of late December 2021.
- You can sell investments held over 12-months with up to \$30,000 of long-term capital gains at a 0% tax rate. Don't cut it too close: If your taxable income is \$81,000, it will trigger the 15% LTCG rate on all LTCG.
- The 0% rate applies to Section 1256 contracts: 60% uses the LTCG rate, and 40% the short-term rate, which is the ordinary rate.

# Long-term capital gains rates

2021 Capital Gains Tax Rates & Brackets (Long-Term Capital Gains)			
	<b>For Unmarried Individuals, Taxable Income Over</b>	<b>For Married Individuals Filing Joint Returns, Taxable Income Over</b>	<b>For Heads of Households, Taxable Income Over</b>
0%	\$0	\$0	\$0
15%	\$40,400	\$80,800	\$54,100
20%	\$445,850	\$501,600	\$473,750
Source: Internal Revenue Source			

# Qualified dividends use capital gains rate

- Per [IRS.gov](https://www.irs.gov): “Dividends can be classified either as ordinary or qualified. Whereas ordinary dividends are taxable as ordinary income, qualified dividends that meet certain requirements are taxed at lower capital gain rates. The payer of the dividend is required to correctly identify each type and amount of dividend for you when reporting them on your Form 1099-DIV for tax purposes. For a definition of qualified dividends, refer to [Publication 550, Investment Income and Expenses](#).”

## Exclusion of Gain Attributable to Certain Small Business Stock

- 100% of the gain on the sale of “small business stock” under §1202 is excluded from income.
- The stock must be held for more than five years to qualify for the exclusion.
- (If the stock was acquired on or before September 27, 2010, other less favorable exclusion rules apply).
- See [Sec. 1202: Small Business Stock Capital Gains Exclusion](#) (The Tax Advisor May 1, 2013.)



# Affordable Care Act 3.8% net investment tax

- There is also the Affordable Care Act (ACA) 3.8% net investment tax (NIT) on net investment income (NII) for upper-income taxpayers with modified AGI above \$250,000 married and \$200,000 single. (It's not indexed for inflation).
- Tax-loss selling and other deductions lower AGI and NII, which can help avoid or reduce NIT.
- See [Form 8960](#) and [Instructions](#).
- See [ACA Net Investment Income Tax](#).

## 2021 Q4 Estimated Taxes Due January 17, 2022

- Many traders have massive trading gains in 2021, and they should now focus on 2021 Q4 estimated taxes due January 17, 2022.
- Using the safe-harbor exception to cover 2020 tax liabilities, some traders can defer much of their tax payments to April 15, 2022. Just don't lose the tax money in the markets in Q1 2022; consider setting it aside.
- For state estimated tax payments, consider potential changes to the SALT cap.
- (See [Traders Should Focus On Q4 Estimated Taxes Due January 15.](#))

# TRADERS ELIGIBLE FOR TRADER TAX STATUS

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# TTS for all or part of the year

- If a trader qualifies for TTS in 2021, they can deduct trading business expenses, startup costs, and home office expenses.
- The trader did not have to elect TTS or create an entity. (Section 475 required a timely election by May 17, 2021.)
- It's okay to commence TTS during the year, although we prefer not later than October 1, 2021; otherwise, the IRS could challenge TTS for Q4 or less.
- (See [How To Be Eligible For Substantial Tax Savings As A Trader](#) and watch a Webinar recording [How To Achieve Tax Savings As A Trader.](#))

# TTS traders can accelerate deductions

- 2021 TTS traders planning to upgrade computers and other expenses should consider accelerating business expenses before the year-end to reduce 2021 tax liabilities.
- For equipment and furniture, you'll need to take possession and place the items into use before the year-end.
- TCJA mostly provides full expensing with tangible property expense up to \$2,500 per item, Section 179 (100%) depreciation, or bonus depreciation.
- Suppose you don't qualify for TTS in 2022; it's better to get the TTS deduction while you can in 2021.

# TTS TRADERS WITH SECTION 475 MTM

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# Section 475 MTM tax loss insurance

- TTS traders using section 475 mark-to-market (MTM) accounting use ordinary gain or loss treatment reported on Form 4797.
- Section 475 trades are not subject to wash sale loss limitations or a \$3,000 capital loss limitation so that an ordinary loss can offset income of any kind. I call that “tax loss insurance.”
- MTM reports unrealized gains and losses at year-end, so the taxpayer doesn't have to do tax-loss selling on TTS trading positions.
- The Section 475 MTM election deadline for 2021 was May 17, 2021.

# Excess business loss (EBL) limitation

- TCJA included an “excess business loss” (EBL) limitation of \$500,000/\$250,000 (married/other taxpayers) for 2018. The 2021 inflation-adjusted EBL limitation is \$524,000/\$262,000 (married/other taxpayers).
- Aggregate EBL from all pass-through businesses: A profitable company can offset another business with losses to remain under the EBL limit. Include wage income in aggregate EBL. Other income and non-business losses do not affect the EBL calculation (i.e., capital gains and losses). EBL over the limit is an NOL carryforward.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act temporarily waived the TCJA EBL rules for 2018, 2019, and 2020, applying again for 2021 taxes.



# CARES Act applies for 2018 through 2020 taxes

- Congress enacted The Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, as one of several Covid-pandemic relief measures.
- CARES temporarily affected 2018, 2019, and 2020 taxes by overriding the 2017 Tax Cuts and Jobs Act (TCJA) elements.
- For example, CARES provided five-year NOL carryback refund claims, whereas TCJA allowed NOL carryforwards only. CARES also waived TCJA's excess business limitation. These changes were temporary; TCJA applies again in 2021.
- See [CARES Act](#).

## Net operating losses (NOLs): TCJA vs. CARES

- TCJA repealed two-year net operating loss (NOL) carrybacks and only allowed NOL carryforwards limited to 80% of the subsequent year's taxable income starting in tax-year 2018.
- CARES suspended TCJA NOL rules for 2018 through 2020, and allowing five-year NOL carrybacks for 2018, 2019, and 2020 NOLs.
- TCJA's NOL rules apply again in 2021. If a trader has a massive loss for 2021, expect the EBL limitation and NOL carryforward only.

## Example of 2021 EBL and NOL under TCJA

- Joe, a TTS/475 trader filing single, has a trading “ordinary” loss plus TTS business expenses of \$500,000 for 2021.
- It’s considered a business loss. Joe has income from wages of \$100,000, so his net EBL is \$400,000.
- The 2021 EBL limitation is \$262,000 so the 2021 NOL carryover from 2021 to 2022 is \$138,000 (\$400,000 EBL minus \$262,000 EBL limit).

# Qualified business income (QBI) deduction

- If a TTS trader has significant TTS/475 income, they might be eligible for a 20% “qualified business income” (QBI) deduction. QBI excludes capital gains and portfolio income.
- Sole proprietors only get this QBI deduction if they are under the QBI taxable income threshold of \$329,800 married and \$164,900 for other taxpayers (2021 threshold adjusted for inflation). Determine the QBI deduction on the lower of taxable income or QBI.
- Suppose you have a TTS S-Corp with officer compensation. In that case, there is also a phase-out/phase-in range based on wages and qualified property for an additional \$100,000 for married and \$50,000 for other taxpayers, above the QBI thresholds.

# NEW TRADERS

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# New TTS traders

- Assess and claim TTS after the fact for 2021.
- You can claim TTS eligibility and add a Schedule C for the TTS expense deductions for all or part of the year.
- It's now too late to elect Section 475 for 2021.
- Many traders became eligible for TTS while working jobs remotely at home. Longevity is important.
- (See [Will The IRS Deny Tax Benefits To Traders Due To Covid?](#))

# Consider a 475 election for 2022

- The IRS postponed the 2020 individual tax filing and payment deadline to May 17, 2021, including the 2021 Section 475 election. (For [Texas](#), [Oklahoma](#), and [Louisiana residents](#), the deadlines were June 15, 2021.)
- A “new taxpayer” entity like an LLC/partnership or LLC/S-Corp may elect section 475 within 75 days of inception by internal resolution.
- However, it’s now too late in 2021 to form a new entity that can qualify for TTS as we like to see entity trading for at least Q4.
- Consider a Section 475 election for 2022, due by April 15, 2022, for individuals and March 15, 2022, for existing partnerships and S-Corps.
- (See [Traders Should Consider Section 475 Election by the Tax Deadline](#).)

# S-CORPS FOR EMPLOYEE BENEFITS

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# TTS S-Corp unlocks employee benefits through payroll

- TTS traders need an S-Corp trading company to arrange health insurance and retirement plan deductions. These deductions require earned income or self-employment income. Unlike trading gains, S-Corp salary is considered earned income.
- S-Corps must execute officer compensation in conjunction with employee benefit deductions through formal payroll tax compliance before year-end 2021. Otherwise, traders miss the boat.

## S-Corp TTS and QBI phase-out range

- TTS is a must since an S-Corp investment company cannot have tax-deductible wages, health insurance, and retirement plan contributions. This S-Corp is not required to have “reasonable compensation,” so a TTS trader may determine officer compensation based on how much to reimburse for health insurance and how much she wants to contribute to a retirement plan.
- Traders in the QBI phase-out range may wish to have higher wages to increase a QBI deduction.
- Sole proprietor and partnership TTS traders cannot create earned income out of trading income. They cannot pay salaries or use guaranteed payments to 2% or more owners.

# Health insurance deduction through payroll

- A TTS S-Corp can unlock officer health insurance (HI) and retirement plan deductions using officer payroll. Add officer's health insurance premiums to officer payroll on the W-2. That opens an AGI deduction for HI on the officer's tax return.
- The officer HI compensation is not subject to payroll tax (social security and Medicare).
- 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 doesn't need to be profitable for the health insurance deduction.

# Health savings accounts

- A taxpayer can deduct a contribution to a health savings account (HSA) without TTS or earned income.
- HSA contribution limits for 2021 are \$3,600 individual and \$7,200 family, with an additional \$1,000 for those age 55 or older.

# Solo 401(k) retirement plan

- If your TTS S-Corp is profitable as of early December 2021, it can pay additional officer compensation up to a maximum of \$154,000 to maximize a Solo 401(k) retirement plan contribution.
- For 2021, it combines a 100% deductible “elective deferral” (ED) contribution of \$19,500 with a 25% deductible profit-sharing plan contribution (PSP) up to a maximum of \$38,500.
- There is also an ED “catch-up provision” of \$6,500 for 2021 for taxpayers age 50 and over.

# Solo 401(k) retirement plan

- Together, the maximum 2021 tax-deductible contribution is \$58,000, and including the catch-up provision, it's \$64,500.
- The elective deferral portion can be a Roth Solo 401(k), so there would be no tax deduction but permanent tax-free status.
- The profit-sharing plan must be traditional, not a Roth.
- See [How Some Traders Double-Up On Retirement Plan Contributions.](#)

# Open Solo 401(k) before the year-end & RMDs

- You must open a Solo 401(k) retirement plan for a TTS S-Corp with a financial intermediary before the year-end 2021. Plan to pay the 2021 100%-deductible elective deferral amount up to a maximum of \$19,500 (or \$26,000 if age 50 or older) with December payroll. That elective deferral is due by the end of January 2022.

You can fund the 25% profit-sharing plan (PSP) portion of the S-Corp Solo 401(k) up to a maximum of \$38,500 by the due date of the 2021 S-Corp tax return, including extensions, which means Sept. 15, 2022.

- Traditional retirement plans have required minimum distributions (RMD) by age 72, raised from 70½ in the Secure Act, whereas Roth plans don't have RMD. CARES waived RMD for 2020, but it applies again in 2021.

# Payroll taxes on officer compensation

- Payroll tax includes 12.4% social security taxes but not exceeding the social security base amount of \$142,800 for 2021.
- Medicare tax of 2.9% is unlimited without a base.
- The employer and employee each pay half the payroll taxes, and the employer deducts its 50% share.
- Medicare tax on officer compensation often replaces Medicare tax on net investment income. The S-Corp converts unearned income from trading into earned income for employee benefits (health insurance and retirement).



# S-Corp accountable reimbursement plan

- Use an S-Corp accountable reimbursement plan to pay the officer shareholder for home-office and other employee expenses. The IRS requires reimbursement before the year-end.
- 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 using an S-Corp accountable plan because the partner can arrange the UPE after year-end.

# Tax withholding alleviates estimated tax payments

- TTS S-Corp traders should consider withholding additional taxes on year-end paychecks in connection with retirement plan contributions, which helps avoid underestimated tax penalties since the IRS treats wage withholding as being made throughout the year.

# Setting up a TTS S-corp for 2022

- Form a single-member LLC (SMLLC) in late November or December 2021 and obtain the EIN to open the LLC trading account with the broker to be ready to trade on January 1, 2022.
- Consider adding your spouse to the LLC operating agreement for a partnership as of January 1, 2022.
- Or file an S-Corp election by March 15, 2022.
- As an SMLLC “disregarded entity” in 2021, it won’t have a tax filing for 2021. This strategy gives you tax benefits for 2022, but not 2021.

# SALT CAP WORKAROUND

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# SALT cap workaround legislation

- Many states recently enacted “SALT cap workaround” legislation enabling pass-through entities (PTE) to deduct entity-level SALT payments as a business expense in place of non-deductible itemized deductions over the “SALT cap” of \$10,000 per individual tax return.
- Currently, 20 states have enacted this legislation, and others are considering it.

# SALT election and PTE payments

- The SALT cap workaround is not automatic in most states; the owner must file an election for pass-through entity (PTE) treatment by the deadline, which varies by state.
- The PTE election deadline for New York State is October 15, 2021. Connecticut's pass-through entity (PTE) tax for the SALT cap workaround is mandatory, which is unique. In most states, the owner can make the election with a timely filed tax return, which is more convenient.
- It's also essential in most states to pay PTE estimated taxes. For a 2021 business expense deduction on the federal return, make the estimated tax payments before December 31, 2021.

# Green's blog posts on SALT cap workaround

- [Unlock State & Local Tax Deductions With A SALT Cap Workaround](#)
- [How to Deduct State and Local Taxes Above SALT Cap](#)
- [Don't Miss The Election For The SALT Cap Workaround](#)

# MISCELLANEOUS CONSIDERATIONS FOR INDIVIDUALS

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# Miscellaneous considerations for individuals

- Individuals should sell off passive-loss activities to utilize suspended passive-activity losses.
- Individual taxpayers can maximize contributions to retirement plans to lower AGI and other income thresholds, which can unlock more QBI deductions, reduce NIT, and unlock credits and other tax benefits. Non-deductible IRA contributions are another consideration.
- The IRS has many obstacles to deferring income, including passive-activity loss rules and limitations on charitable contributions.
- Consider a charitable remainder trust to bunch philanthropic contributions for itemizing deductions.
- Donate appreciated securities to charity. You get a charitable deduction at the fair market value and avoid capital gains taxes.

# Miscellaneous considerations for individuals

- Consider directing your traditional retirement plan to make “qualified charitable distributions.” That satisfies the RMD rule with the equivalent of an offsetting charitable deduction, allowing you to take the standard deduction rather than itemize charitable contributions.
- [Expanded tax benefits help individuals and businesses give to charity during 2021; deductions up to \\$600 available for cash donations by non-itemizers.](#)
- Choose your filing status carefully.
- Don't forget about Covid-19 related retirement plan distributions in 2020 up to \$100,000, taxable or repayable over a three-year period.

# Family tax planning

- TCJA improved family tax planning. Section 529 qualified tuition plans now can be used to pay for tuition at an elementary or secondary public, private, or religious school up to \$10,000 per year (check with your state). The 2020 and 2021 annual gift exclusion is \$15,000.
- TTS traders should also consider hiring adult children as employees.
- See the [CARES Act](#) for other tax benefits affecting families.

# Child tax credits

- See [Advance Child Tax Credit Payments in 2021](#) to see what you are entitled to and how to manage the payments. It's a vital link.
- Per [IRS Gives Taxpayers One Day To Rightsize Child Tax Credit November Payments: November 1](#): “Thanks to the American Cares Act, some 35 million families are getting advanced monthly payments of half of their federal child tax credit—and many are getting enhanced payments. You get the other half when you file your 2021 income tax return in 2022. The maximum Child Tax Credit payment is \$300 per month for each child under age 6, and \$250 per month for each child ages 6 to 17. November 15 and December 15 are the last two days for monthly payments for 2021, which started in July.”
- See [Assistance for American Families and Workers](#)

# Federal disaster relief

- Even though 2020 income tax returns in states eligible for [federal disaster relief](#) are due January 3, 2022, if you want to e-file the returns, the actual e-file deadline is sometime in December 2021, and it's not yet clear.
- Otherwise, you must paper file the 2020 tax returns by January 3, 2022, and there is an IRS backlog for processing under Covid-19 conditions.
- That causes another problem: You want your 2020 overpayment credit applied on a timely basis to 2021 taxes, and if you paper file, it might not be.

# PENDING FEDERAL TAX LAW CHANGES

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# Build Back Better Framework

- As of October 30, 2021, President Biden's [Build Back Better Framework](#) does not directly impact most traders.
- “Ask Highest Income Americans to Pay Their Fair Share
  - New Surtax on Multi-Millionaires and Billionaires
  - Close Medicare Self-Employment Tax Loophole by Strengthening the Net Investment Income Tax for Those Making Over \$400,000
  - Continue Limitation on Excess Business Losses
- Tax Compliance
  - Invest in IRS Enforcement.”

# SALT cap repeal or expansion?

- “Expanding the federal deduction for state and local taxes was left out of the framework of Biden’s social-spending package. Democratic lawmakers haven’t given up hope, at least yet. “SALT will be in the endgame, yes,” House Ways and Means Chair Richard Neal (D-Mass.) told reporters this week. He said he’s “waiting to see” if the SALT plan will resemble the latest idea of restoring the full deduction for two years (2022 & 2023), then returning to the current \$10,000 limit for four years (2024 through 2027). A major accounting group, meanwhile, says the IRS should issue more guidance to clarify the deductibility of payments made by passthrough entities opting into state workarounds for the SALT cap.” (Bloomberg’s Daily Tax Report dated October 30, 2021)
- If Congress repeals the SALT cap for 2022, California and some other states might repeal their SALT cap workaround laws. Stay tuned!



# QUESTIONS AND ANSWERS

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# Contact us

- Thank you for attending this Webinar or watching the recording.
- Visit [www.GreenTraderTax.com](http://www.GreenTraderTax.com) for additional information.
- Call us toll free at 888.558.5257 or 203.456.1537
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## Updates October 27, 2021

We plan on accepting a *limited* number of new clients for our 2021 tax compliance service if eligible for [trader tax status](#). See [updates here](#).

You can now purchase our entity formation service to be ready to trade in it on Jan. 1, 2022. See [update here](#).

We seek to engage new CPA contractors; see our [job openings](#).

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Many states recently enacted "SALT cap workaround" legislation enabling pass-through entities (PTE) to deduct entity-level SALT payments as a business expense in place of non-deductible itemized deduc...

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