

January 10, 2023

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Green Trader Tax

Significant Tax Moves for Traders to Make in Q1 2024

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SIGNIFICANT TAX MOVES FOR TRADERS TO MAKE IN Q1 2024



January 10, 2024, @ 2:00 pm ET
for 60 minutes
(Interactive Brokers)

Robert A. Green, CPA

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- Green & Company, Inc.
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Description

Join Robert A. Green, CPA, from [GreenTraderTax.com](https://www.GreenTraderTax.com), for insights and information to help traders.

Mr. Green will interview [Darren Neuschwander, CPA](#), of Green, Neuschwander & Manning, LLC (GNM). Mr. Neuschwander will give tips on how to get organized early to improve tax season results.

Fourth quarter (Q4) estimated taxes are due Jan. 16, 2024. Learn to avoid a 7 to 8% underestimated tax penalty.

Do not trigger 2023 wash sale losses by repurchasing losing trades in Jan. 2024.

Description

Focus on extensions due Apr. 15, 2024, for individuals and Mar. 15 for partnerships and S-Corps.

Learn how to assess qualification for trader tax status (TTS) in 2023 and 2024.

TTS traders should consider a Section 475 MTM election with a federal extension.

Focus on trade accounting for various tax treatments for securities, futures, options, ETFs, ETNs, and cryptocurrencies.

Learn how to read a broker-issued Form 1099-B.

INTERVIEW DARREN NEUSCHWANDER CPA

Interview

- Mr. Green will interview [Darren Neuschwander, CPA](#), of Green, Neuschwander & Manning, LLC (GNM).
- Mr. Neuschwander will give tips on how to get organized early to improve tax season results.

ESTIMATED TAXES

Estimated taxes

Many traders have substantial trading gains for 2023, and they might owe 2023 estimated taxes paid to the IRS quarterly.

Unlike employers who withhold taxes on wages, brokerage firms do not withhold taxes on trading gains.

Depending on their specific tax situation, other taxpayers may be able to wait to make tax payments until April 15, 2024, when they file their 2023 tax return or extension.

See [Traders Should Focus On Q4 Estimated Taxes Due January 16.](#)

Estimated taxes

The first three quarterly estimated tax payments were due April 18, June 15, and September 15, 2023; the fourth quarter payment is due January 16, 2024.

Many new traders didn't submit estimated payments for the first three quarters, waiting to see what Q4 brought.

Also, some traders view skipping estimated tax payments as a margin loan with interest rates of 7% for Q1 and Q2 2023 and 8% for Q3 and Q4 2023.

With full transparency at year-end, traders can better assess the payment they should make for Q4 payments to minimize their underpayment penalties and interest.

Safe-harbor rule

The safe-harbor rule for paying estimated taxes says there's no penalty for underpayment if the total payments made equals 90% of the current-year tax bill or 100% of the previous year's amount (whichever is lower).

If your prior-year adjusted gross income (AGI) exceeds \$150,000 or \$75,000 if single/married filing separately, then the safe-harbor rate rises to 110% of the previous year's tax amount.

Example

Suppose your 2022 tax liability was \$40,000, and AGI was over \$150,000. Assume 2023 taxes will be approximately \$100,000, and you haven't paid estimates going into Q4.

Using the safe-harbor rule, you can spread out the payment, submitting \$44,000 (110% of \$40,000) with a Q4 voucher on January 16, 2024, and paying the balance of \$56,000 by April 15, 2024.

This is a good option when compared to sending \$90,000 in Q4 (90% of \$100,000). Consider setting aside that tax money due April 15, 2024, rather than risking it in the financial markets in Q1 2024. I've seen some traders lose the money they planned to use to pay taxes by trading it in the market. No money to pay your taxes causes trouble with the IRS. (See the example below).

90% of current year

If your 2023 income tax liability is significantly lower than your 2022 tax liability, consider covering 90% of the current year's taxes with estimated taxes. Check your state's estimated tax rules, too.

In the above example, the trader should calculate the underpayment of estimated tax penalties for Q1, Q2, and Q3 on the 2023 Form 2210.

Consider using Form 2210's Annualized Income Installment Method if the trader generated most of his trading income later in the year. The default method on Form 2210 allocates the annual income to each quarter, respectively.

Learn more about estimated taxes at <https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes>.

WASH SALE LOSSES

Avoid wash sale losses in Jan. 2024

Do not trigger 2023 wash sale losses by repurchasing losing trades in Jan. 2024. That would create phantom income and higher taxes for 2023.

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 a permanent WS loss.

See more about [wash sale losses](#) in our Tax Center.

EXTENSIONS

Focus on extensions

The 2023 income tax returns for individuals are due by April 15, 2024 — however, most active traders aren't ready to file a complete tax return by then. Some brokers issue corrected 1099-Bs right up to the deadline and often after the filing deadline.

Many partnerships and S-Corps file extensions by March 15, 2024, and don't issue final Schedule K-1s to investors until after April 15.

Traders don't have to rush to complete their tax returns by April 15.

They can use a simple one-page automatic extension and pay taxes owed to the IRS and state.

Focus on extensions

Traders can request an automatic six-month extension to file individual federal and state income tax returns until Oct. 15, 2024.

The 2023 Form 4868 instructions indicate how easy it is to get this automatic extension — no reason is required.

It's an extension to file a complete tax return, not an extension to pay taxes owed.

The taxpayer should estimate and report what they think they owe for 2023 based on the tax information received.

Focus on extensions

We suggest taxpayers learn how the IRS and states assess late-filing and late-payment penalties so they can avoid or reduce them.

If taxpayers cannot pay the taxes owed, they should estimate the balance due by April 15 and report it on the extension.

Be sure to at least file the automatic extension on time to avoid the late-filing penalties, which are much higher than the late-payment penalty.

See the [2023 Form 4868](#), page two, for an explanation of how to calculate these penalties.

Another resource: [Tax Extensions: 12 Tips To Save You Money](#).

Focus on extensions

Some traders made massive trading gains in 2023. Some used the estimated tax payment “safe harbor” exception to cover their 2023 tax liability with the fourth quarter (Q4) 2023 estimated tax payment made by Jan. 16, 2024.

They plan to pay the balance of taxes owed by April 15, 2024 and should consider setting aside and protecting those funds.

Some will risk their tax funds in the markets. Taxpayers should be careful because losing the funds will cause significant trouble later in the year.

See [Traders Should Focus On Q4 Estimated Taxes.](#)

Entity tax extensions

LLC partnership and S-Corp extensions are due one month earlier than for individuals. The deadline is March 15, 2024. The six-month extension is until September 16, 2024.

As pass-through entities, partnerships, and S-Corps pass the income to the individual owners who pay taxes on the individual level.

The entity state income tax return might include taxes, including [SALT cap workaround PTE taxes](#), franchise taxes, or other nominal taxes. Make sure to assess and pay these taxes with the extension.

See [Green's 2024 Trader Tax Guide](#).

TRADER TAX STATUS

Trader tax status

Learn how to assess qualification for trader tax status (TTS) in 2023 and 2024.

If you elected Section 475 MTM accounting for 2023 or a prior year, using it hinges on qualification for TTS. Wash sales are moot with Section 475.

If you will be eligible for TTS in 2024, consider a Section 475 election attached to the 2023 extension filing.

There are many nuances with TTS and Section 475, so focus on this issue early in the year.

See [How to Qualify for TTS](#) and more about [Section 475](#).

TAX TREATMENT OF FINANCIAL PRODUCTS

Tax treatment of financial products

Focus on trade accounting for various tax treatments for securities, futures, options, ETFs, ETNs, and cryptocurrencies.

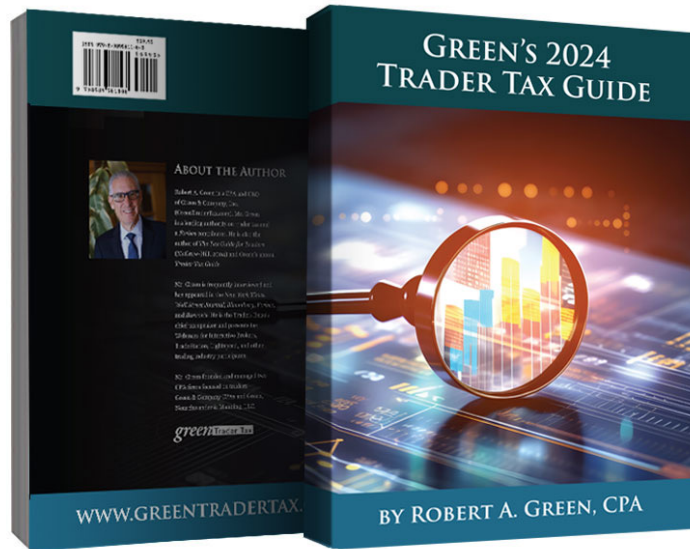
See the Green Trader Tax Center.

<https://greentradertax.com/trader-tax-center/tax-treatment/>

Learn how to read a broker-issued [Form 1099-B](#).

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