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2025 TAX TIPS FOR TRADERS: STRATEGIES FOR COMPLIANCE AND SAVINGS

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February 19, 2026, @ 12:00 pm ET
for 60 minutes
([Interactive Brokers](#))

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Agenda / What You'll Learn

- What OBBBA changed (and what it didn't)
- How traders report income vs. expenses
- When Section 475 helps — and when it hurts
- Wash sales: IRS rules vs. broker reporting
- Entity, SALT, and PTET planning after OBBBA

OBBBA NEW TAX LAW

Schedule 1-A (Additional Deductions) — Overview

Applies to tax years **2025 through 2028** and is available to both itemizers **and** non-itemizers. These deductions are claimed **after computing AGI/MAGI**.

Taxpayers use Schedule 1-A to claim:

- No tax on **tips**
- No tax on **overtime pay**
- No tax on qualified **car loan interest**
- Enhanced **deduction for seniors**

[Schedule 1-A lists](#) **deduction limits** and **income-based phase-outs**, which vary by filing status

See [IRS guidance on tax deductions for working Americans and seniors](#) and [IRS News Release IR-2026-02](#)

OBBBA Key Permanent Provisions (1/2)

- **Individual Income Tax**

- The reduced individual income tax rates (**10% through 37%**)
- The **enhanced standard deduction**

- **Business Deductions**

- The **20% Qualified Business Income (QBI) deduction** under **Section 199A** for pass-through entities
- Excess Business Loss (EBL) rules.
- Net Operating Loss (**NOL**) limitations and **carry-forward rules**

- **Depreciation & Research**

- **100% bonus depreciation** for qualified property acquired after **January 19, 2025**
- **Immediate expensing of domestic R&D costs**

OBBBA Key Permanent Provisions (2/2)

- **Estate and Gift Taxes**
 - The **federal estate and gift tax exemption** is substantially increased
- **Small Business Investment**
 - **Section 179 expensing** limit increased to **\$2.5 million**, with a **\$4 million phase-out threshold**
- **Miscellaneous**
 - The **disallowance of miscellaneous itemized deductions** (such as investment advisory fees and tax preparation fees)

TRADER TAX STATUS AND REPORTING

Trader-Specific Benefits Permanent under OBBBA

Trader Tax Status (TTS) remains intact as a facts-and-circumstances determination.

TTS **unlocks business expense deductions**, as OBBBA made **permanent TCJA's suspension of investment expenses**.

Section 475 mark-to-market (MTM) accounting remains available **exclusively to TTS traders, allowing ordinary gain/loss treatment, exemption from wash-sale rules, and avoidance of the \$3,000 capital-loss limitation**.

Section 475 ordinary income **qualifies as QBI** for the **20% QBI deduction**.

OBBBA preserved TTS entity tax savings

Most traders **start as sole proprietors**, unincorporated taxpayers.

Consistently profitable TTS traders consider forming an **S-Corp for officer health insurance, retirement plan deductions, and a SALT cap workaround.**

An **LLC/partnership** for **segregation** and a **SALT cap workaround.**

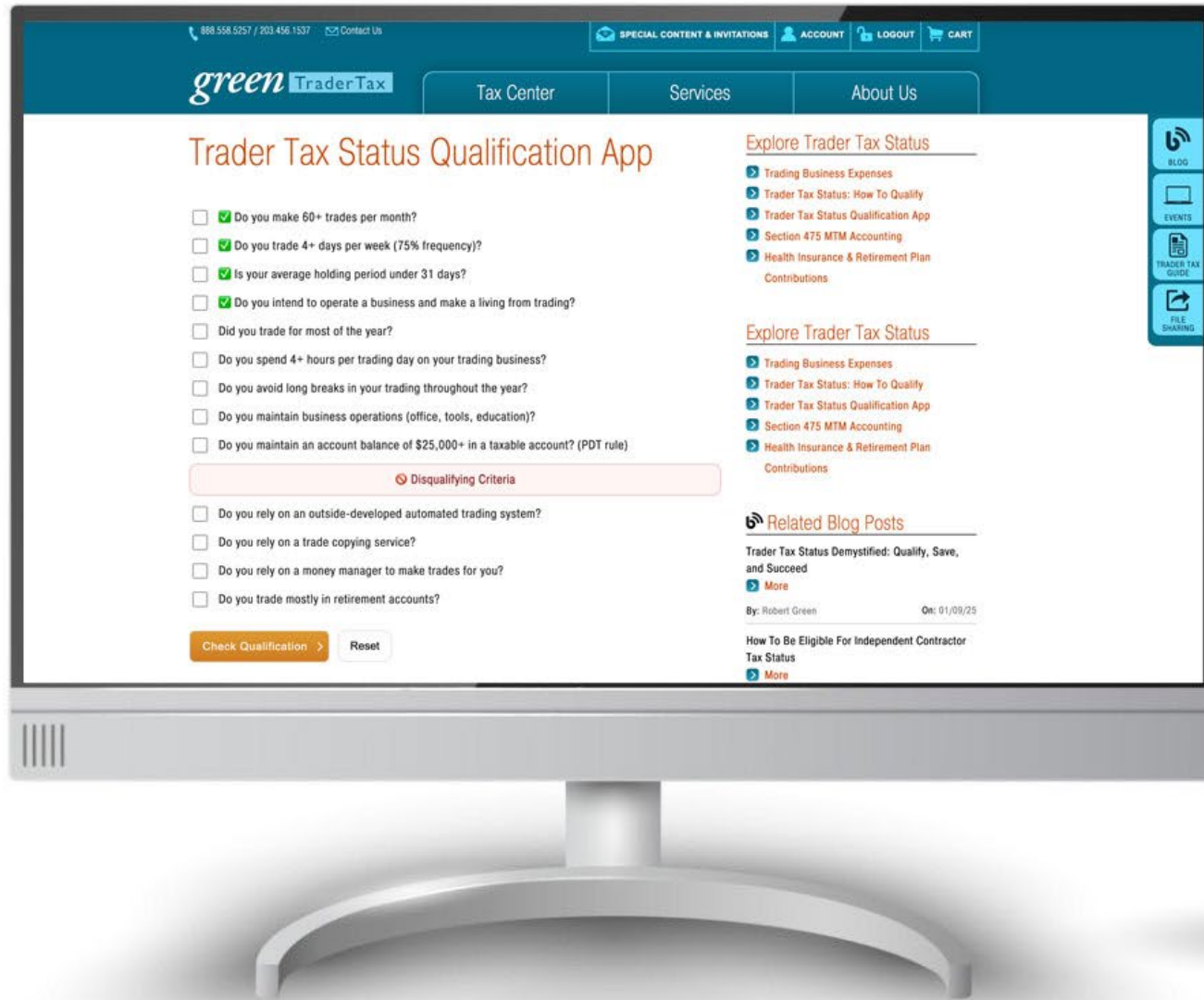
A sole proprietor cannot arrange these tax benefits.

TTS Schedule C Expenses

- Once TTS is established, traders may deduct **ordinary and necessary business expenses** related to their trading activity on [Schedule C](#).
- Trading expenses can include bonus depreciation on trading equipment, software, data services, home office expenses, margin interest, and professional fees. See the detailed **list of trading business expenses** at [GreenTraderTax.com](#).
- A TTS Schedule C shows a loss with no revenue or income. Explain that in a tax return footnote. Also, learn about our “transfer of income” strategy to zero out Schedule C. (Get [Green’s 2026 Trader Tax Guide](#).)

How to qualify for Trader Tax Status

- *Volume*: We recommend an average of four transactions per day, four days per week (16 trades per week), 60 per month, and 720 annually.
- *Frequency*: Execute trades on nearly four weekly days, around a 75% frequency rate.
- *Holding period*: In the Endicott Court, the IRS said the average holding period must be 31 days or less.
- For more information, see [Trader Tax Status: How To Qualify](#).



ELECTING SECTION 475 MTM

Securities Traders and the Section 475 Election

- For traders who qualify for TTS, a **Section 475 MTM election for 2026** can eliminate wash sale issues but introduces EBL and NOL considerations. The election is complex and must be made on time.
- **Election Procedures**
 - For existing taxpayers, a 2026 Section 475 election statement must be filed with the 2025 tax return or extension by April 15, 2026; new taxpayers follow different internal election procedures.
- Existing partnerships and S-Corps that must file a 2025 tax return should file a 2026 Section 475 election by March 15, 2026.
- *There are additional technical steps we cover in the Guide.*

EBL, NOL AND QBI

EBL and NOL

- **Section 475 mark-to-market (MTM) trading losses and expenses are ordinary business losses**, which are subject to the **Excess Business Loss (EBL) rules under IRC §461(I)**, reported on [Form 461](#).
- EBL amounts over the threshold are **recharacterized as Net Operating Losses (NOL) carryforwards**.
- NOLs generally offset up to **80% of taxable income** in future years.
- Trading loss → EBL limit → NOL carryforward → 80% offset rule

Qualified Business Income Deduction

- Section 475 ordinary trading income **may qualify for the Qualified Business Income (QBI) deduction** under IRC §199A, reported on Forms [8995](#) and [8995-A](#).
- Trading businesses are generally treated as Specified Service Trades or Businesses (SSTBs), with QBI eligibility dependent on taxable income thresholds.
- W-2 wage and property limits and taxable income caps apply in the phase-out range.
- QBI is computed on **net business income after expenses**
- See [2025 Year-End Tax Planning for Traders and Investors Under the OBBBA](#), number 7. **The QBI Deduction: Preserve It With an S-Corp.**

WHERE TO REPORT TRADING GAINS AND LOSSES

Capital Reporting (Forms 8949 & Schedule D)

- [Form 8949](#) for securities and property (including cryptocurrencies) feeds into [Schedule D](#).
- Form 8949 uses the **realization method for short- and long-term capital gains** and losses; long-term rates are **0%, 15%, and 20%**.
- **Wash-sale losses** apply to securities on Form 8949.

Ordinary & Futures Reporting (Forms 4797 & 6781)

- [Form 4797](#) for Section 475 mark-to-market (MTM) **ordinary income or loss** on securities. **Only TTS traders can elect and use Section 475 MTM.**
- [Form 6781](#) for **Section 1256 contracts**, including futures on a U.S. qualified board or exchange (QBE). 60/40 capital gains treatment is applied on Form 6781, which then feeds into Schedule D.
- Section 1256 contracts are **MTM**, so **wash sale losses don't apply.**
- A taxpayer may elect to carry back a Section 1256 loss reported on Form 6781 three years against prior Section 1256 income.
- See a [list of Section 1256 contracts](#) in the GreenTraderTax Center.

Trader Reporting Regimes at a Glance

Category	Investor	Trader with TTS (No 475)	Trader with TTS + Section 475
Primary Activity	Investing	Active trading	Active trading
Business Expenses	Not deductible	Deductible on Schedule C	Deductible on Schedule C
Trading Gains/Losses	Capital	Capital	Ordinary
Reporting Forms	Forms 8949 & 6781 → Schedule D	Forms 8949 & 6781 → Schedule D	Form 4797
Wash Sale Rules on securities	Apply	Apply	Do not apply
Loss Limitation	\$3,000 capital loss limit	\$3,000 capital loss limit	No capital loss limit (subject to EBL rules)
Year-End MTM	No	No	Yes (mandatory)

WASH SALE LOSSES AND FORM 1099-B

Why 1099-Bs Are Often Incomplete (Not Wrong)

Wash Sale Calculations: IRS Taxpayer Rules vs. Broker Reporting

- IRS wash sale rules (WS) apply at the **taxpayer level**, while broker reporting operates at the **account level**.
- Brokers adhere to the **narrower wash-sale rules** required under IRS broker-reporting regulations.
- Don't accuse your broker of errors here; the rules are inconsistent, and that's not their fault.

IRS WS Rules for Taxpayers

- IRC §1091 wash sale rules **apply exclusively to stocks, securities, and related options** or contracts to acquire them, prohibiting loss deductions if a “substantially identical” position is acquired within 30 days before or after the sale.
- **Aggregate all taxable accounts (including IRAs)**. IRA accounts on their own do not have wash sales; however, losses triggered by IRA replacement purchases are permanently disallowed.
- Apply wash sales across **substantially identical securities**
- Track replacement shares or equity options and adjust basis

Broker 1099-B Reporting of Wash Sales

- Limited to a **single account**
- No cross-broker aggregation
- Simplified definitions of identical securities
- As a result, broker-reported wash sales are often incomplete for active traders.

Broker 1099-B Reporting of Wash Sales

- **Example 1:** A trader sells 100 shares of Apple stock at a loss at Broker A and repurchases 100 shares of Apple stock within 30 days at Broker B. No broker flags a wash sale, but the IRS rules require deferral of the loss. Otherwise, it would be too easy to game the system.
- **Example 2:** A trader sells Apple shares and, within 30 days, purchases Apple equity options. That's a wash sale because shares and equity options are substantially identical positions. No broker flags a wash sale, but the IRS rules require deferral of the loss under the taxpayer's rules.

TradeLog Software

- TradeLog aggregates multi-broker data and applies IRS-compliant wash-sale logic based on taxpayer rules (not broker rules), generating Form 8949, 4797, and 6781 reports for active traders.

SECTION 1256 CONTRACTS (FUTURES)

Futures, Options, and Section 1256 Reporting

- Traders with Trader Tax Status (TTS) may also elect **Section 475 on commodities (including futures)**.
- However, doing so converts Section 1256 gains and losses from 60/40 capital treatment to **ordinary income or loss**, eliminating the preferential tax rates.
- At the maximum tax bracket for 2025 and 2026, the blended 60/40 rate is 26.8% — 10.2% lower than the highest regular bracket of 37%.

When a futures trader might consider Section 475

- In most cases, retaining Section 1256 treatment is the wiser choice for futures traders because the **lower blended 60/40 tax rates** often outweigh the benefits of ordinary gain or loss treatment under Section 475.
- However, if the futures trader incurs a massive trading loss in Q1 2026, they should consider a Section 475 election by April 15, 2026, to ensure ordinary loss treatment and avoid a capital loss limitation.
- This is one of the few situations in which electing Section 475 for commodities may be advantageous.

*Takeaway: Most futures traders should **not** elect Section 475 on commodities.*

SALT CAP VS. PTET DEDUCTION

Try to get standard deduction + PTET

SALT Cap Workaround Overview

- **SALT Limitation**

- Pre-2025: SALT itemized deduction capped at **\$10,000** under TCJA.
- OBBBA raises the cap to **\$40,000 (2025–2029)**, subject to phase-down at higher incomes.
- The SALT cap reverts to the original \$10,000 in 2030.

- **Workaround: PTET**

- Pass-Through Entity Tax (PTET) allows state income taxes to be paid at the entity level.
- Entity-level taxes are treated as a **business deduction on the federal return**, bypassing the individual SALT cap. You get a credit on your individual state tax return.

- **Why It Matters Post-OBBBA**

- PTET remains **intact under current law** and is not restricted by the expanded SALT cap.
- Because the SALT cap benefit can phase out for **high-income taxpayers**, PTET continues to provide value. Try to get a **maximum PTET credit plus the standard deduction**.

ENTITIES

Tax reporting for LLCs and S-Corps

- Trading gains and losses are still reported based on the **instrument and elections** (Form 8949, Form 6781, or Form 4797), whether trading personally or through an entity.
- Entity does not change character of trading gains and losses.
- Deduct trading business expenses on **page one of Forms 1065 or 1120-S**.
- The **entity must qualify for TTS**. It's a myth sold by tax promoters that an entity can overcome failure to qualify for TTS.

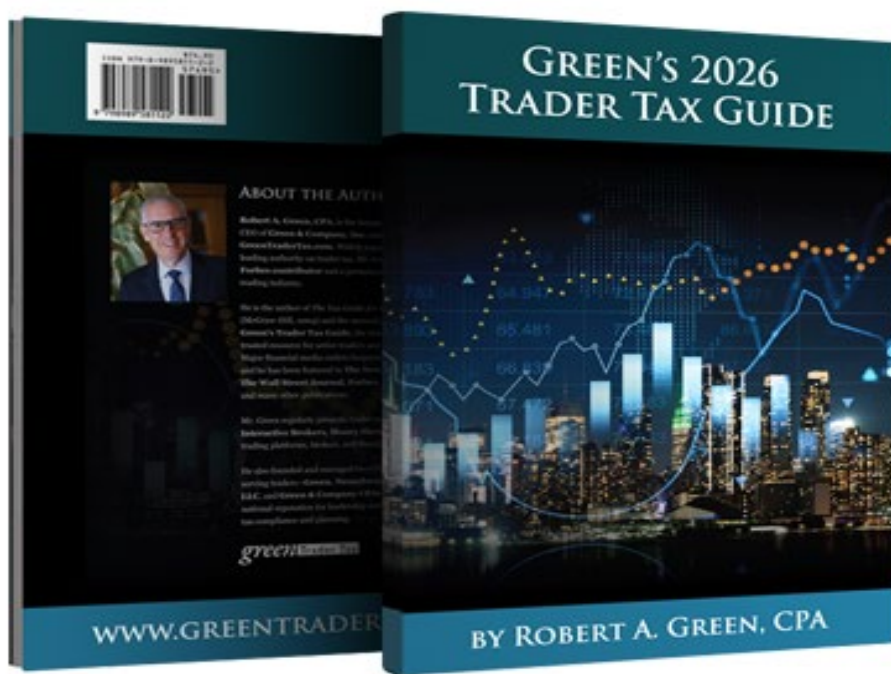
Schedule K-1s

- Pass-through entities issue **Schedule K-1s**, which must reconcile precisely with the entity's trading results, expenses, Section 475 MTM adjustments, and PTET deductions.
- The Schedule K-1 also reports QBI income, wages, and property limits to benefit from the QBI phase-out range.
- S-Corps are the preferred entity choice for TTS traders to unlock employee benefits, including health and retirement benefits. S-Corp officer compensation is critical for these deductions, and payroll must be executed before year-end for the year in which you want to take health and retirement plan deductions.

MISTAKES AND MISSED OPPORTUNITIES

Common Missed Tax-Saving Opportunities

- Failing to qualify for or document Trader Tax Status (TTS)
- Not deducting eligible trading business expenses on Schedule C
- Missing or delaying a Section 475 MTM election when beneficial
- Inefficient wash sale handling for securities traders
- Not leveraging the Section 1256 60/40 tax treatment for futures
- Failing to coordinate PTET and entity-level deductions
- Overlooking a QBI deduction or mishandling it.



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