

THINKORSWIM TAX HANDBOOK

An introduction to our tax tools and your tax worksheet



TAX HANDBOOK

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Disclaimer

We offer this software to you AT NO CHARGE WITH ABSOLUTELY NO WARRANTY OR GUARANTEE OF ANY KIND. YOU ARE USING IT AT YOUR OWN RISK. YOU ARE RESPONSIBLE FOR THE ACCURATE AND APPROPRIATE PREPARATION OF YOUR TAX RECORDS. IF YOU ARE UNSURE OF THE PROCESS, REGULATIONS OR REQUIREMENTS INVOLVED IN PREPARING YOUR YEAR-END TAX FILING, SEEK PROFESSIONAL TAX PREPARATION ASSISTANCE.

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This report may not be appropriate for your needs if you report taxes as a professional trader. *You are responsible for the accuracy of your own tax reporting. thinkorswim has provided this tax worksheet to assist you in preparing your taxes and does not guarantee the accuracy of the information provided. We recommend you always get qualified tax advice.*

Tax Reconciliation

The process of reconciling your trading transaction records with your year-end positions is required to find out how much money you gained or lost in your trading activity during the last tax year. The Tax Worksheet file is generated from data which we receive directly from your clearing firm Penson Financial Services, Incorporated. It contains all of the trading transactions for your account for the period you specify when you download it; usually a one year period. With these records you can generate a 1040 Schedule D and complete the Form 6781.

You can either use our Tax tools (inside the “Account Statement” tab in the desktop application) or your favorite spreadsheet program to address any issues or inconsistencies.

NOTE: We base the worksheet on data that we receive directly from Penson. It is the same data that they use to create your 1099 and other tax documents. In this way, you are receiving an unadulterated view of your “books and records”. If you find anything amiss, please contact us so that we can resolve the issue.

Tax Worksheet

The Tax Worksheet file will refer to each transaction by its trading symbol in the case of stock trades and by its OPRA code in the case of option trades.

Our system takes the data from Penson and determines the state (matched, unmatched, held over etc.) of each transaction listed. Our Tax Worksheet file will suggest a possible course of action to reconcile any problems or missing data. You’ll be able to edit the Tax Worksheet File data to enter it into the Schedule D (Capital Gains and Losses) and Form 6781 of the US 1040 Form. In addition, the data can be exported in a very rudimentary .TXF format so that you can import into TurboTax or compatible tax preparation software.

Introduction

In addition to the data required for the Schedule D Form, each line has two extra fields: an indicator of index or equity and a status field. The index / equity indicator reads "Index" for contracts that are Section 1256 Contracts for IRS reporting and "Equity" for all other securities. We have taken the conservative route by indicating only cash-settled index option and futures contracts. If you and your tax advisor choose to put ETFs like the QQQQ or DIA in this category, just reclass those trades manually using this field. You can then sort your data to group it into the two categories.

The status lines help you to understand your data. Status lines fall into two distinct groups. This first group should not require you to do anything further:

- **Matched Trades:** A purchase was found to match the sale and both are recorded on this line. You should not need to adjust this line in any way unless you report taxes using specific lots. It is possible that two similar trades of the same symbol can get matched differently to how you might have matched them but nevertheless they are considered matched for tax purposes. Also, watch out for the IRS straddle rules and wash sale rules.
- **Cash Settled Exercise / Assignment:** Settlement on a cash-settled index option.
- **Expired Worthless:** The option expired worthless.
- **Open at Year End - Index Marked to Market:** This index position was open at year end and therefore was treated as a Section 1256 Contract and calculated based upon the closing price on December 31. Keep in mind that we have not treated ETF's like QQQ or DIA in this fashion, but check with your tax advisor on his or her recommended treatment.

The second group covers a number of possible scenarios, but you should have relatively few of these lines that require you to take some action to manually resolve:

- **Expired Worthless Carryover From Prior Year:** This was open at year end and expired worthless in the current year. You need to update the opening sale or purchase from the prior period.
- **Closing Purchase Carryover From Prior Year (Also Closing Sale Carryover From Prior Year):** This was open at year end and was closed in the current year. You need to update the opening sale or purchase from the prior period.
- **Unable to Locate Closing Action:** There is an expiration action on this symbol, but no opening trade. It may have

been transferred into your thinkorswim account or the option may have had a corporate action that caused the opening position to be in a different symbol.

- **Expired Worthless Transaction Without Opening Position:** This position closed in the current tax year, but the opening trade was made in a prior year and was marked to market at the end of the prior tax year. These should not need any adjustment.
- **Open At Year End - Equity Marked to Market:** Non-professional traders can generally remove this line, as these are equities, equity options, mutual funds, etc. that are open at year-end.
- **Held All Year - Equity marked to Market:** This is the same as above, except that the position was open at the prior year end. It would be good to update it with the original trade date and price and save it for the next tax year.
- **Open at Year End But No Opening Trade Found:** The position was most likely transferred in, but may have been subject to a corporate action that resulted in a symbol change. It would be best to update the opening trade information before saving this for the next tax year.
- **Stock Settled Assignment (Also Stock Settled Exercise):** This item is an equity option that was assigned or exercised. The closing trade reflects the date and a \$0 amount, as the result was a short or long stock position.

Tax Tools:General Introduction

The tool will separate the records into “Tabs” of similar transaction record types based on information in the records themselves. There is also a special Tab “Search” which allows you to search for positions with similar OPRA root or stock symbol.

Trade records will be segregated into separate tabs to show which positions are either carried over from the previous year, or held over to the following year. Index-based positions are also listed separately for convenience.

Any records with missing fields (a missing acquisition date or cost basis field, for example) will be marked with a little orange arrow. Those fields, as far as the tool can tell, need some manual intervention on your part in order to make the record accurate and complete. You can double-click those fields to edit them.

Process

Records can be edited by double-clicking on the appropriate cell. Only the dates of acquisition and sales, the sales price and cost basis can be directly edited. Records which are edited turn orange so they stand out.

Edited values are bold-faced so you can tell what has been edited and what hasn't.

Records can be RESET if you need to go back to their original values. This is only possible for any single editing session. That is, if you save the tax worksheet file as a new file and then reload it the program won't know what the original file's values are.

Records can be deleted. Right-click a row in the table to mark a record for deletion. The actual deletion of a marked record only occurs when you "Save as..." to a new file; It will merely not include that record when it writes out the new file. At any time during an editing session you can toggle the deletion status on or off. Right-click a row in the table to mark a record for deletion.

Groups of commonly removed records can be easily marked for deletion by choosing the correct "Records -> mark for deletion option" in the menu. The program will find any appropriate records matching that menu description and mark or unmark those records for deletion.

Note: it is possible to inadvertently mark or unmark a record that you want to keep or delete from the output. Use it with caution.

Saving & Exporting

"Save As..." saves the output into one or more related files.

The most common format to choose for output is the .CSV option. This will save out another .CSV formatted file with the changes from this session in the resulting file. The next few options below that deserve some explanation.

Records that were unable to be parsed will not be included in the editing session; they are kept separate. You may export a list of those as a separate file in order to correct them manually. If there were no "unparseable" records found during the import of your tax worksheet file, then no file will be created when you select that option automatically.

"Output removed records" will generate a file of all the records which have been marked for deletion. NOTE: These records will

not have been included in the main .CSV output, but you may need them to for other reasons.

“Output Held over Records” will create a file which includes any positions that seem to have been held over into the the next tax year. These records will be useful in reconciling next year’s tax returns. NOTE: Unless explicitly marked for deletion these trades may appear in the basic .CSV output results.

“Output Index Records” will create a file which includes any positions whose underlying is an Index-based security so that you can enter these records in the appropriate section in Part I or Part II of FORM 6781 of your US Tax Return. Unless marked for deletion explicitly, these trades may appear in the basic .CSV output results.

Method

STEP 1

Find any positions which were carried over from the previous tax year and which were not marked-to-market (typically equity-based underlying securities opened in the previous tax year) and enter the date acquired and cost basis for long positions, or the date sold and sales proceeds for short positions. The tool will prompt you for fields which are in need of editing.

If the option symbol does not seem familiar, right click on that line and choose “Lookup OPRA Root” from the menu. A window will open showing the underlying security for that option by checking the OCC website.

STEP 2

Find any positions which are held over until next year and remove them (Typically equity-based underlying securities)

STEP 3

Find any positions which should be marked-to-market (typically Index-based underlying securities) and remove them into a separate file for inclusion on US 1040 Form 6781.

STEP 4

Find any positions that are missing data — as a result of transfers, corporate actions or other problems — and edit those so they are correct. Remove any extra records which can are not necessary; sometimes a corporate action will create two records

that can be combined into one.

STEP 5

Enter the appropriate matched records into your Schedule D. Enter your appropriate marked-to-market Index (Section 1276 contracts) trades in Form 6781. You may have additional work to do still, but the steps described above are typical for the average thinkorswim client.

Commonly Asked Questions

How do I reconcile my tax worksheet to my tax information from Penson?

First of all, keep in mind that the purpose of this reconciliation is to confirm consistency of data, not to calculate the tax consequences of your trading:

There are two reconciliations you can perform. The first number you need from your 1099-B is the "Proceeds from Broker and Barter Exchange Transactions" (gross value of securities sales). It is the amount reported to the IRS and does not include options. The second number you need is your "Total Options" number at the very end of the Supplemental Tax Information in your Penson tax documentation. This figure is the net of your option trades. Sales are positive numbers and buys are negative numbers, in the same way that they affect cash in your trading account. the total proceeds, which you calculate by adding the "Options Sold" value on the Penson Tax Summary that came with your 1099 to the 1099 proceeds figure to get total securities proceeds.

To reconcile your TOS tax worksheet to the 1099 reported proceeds, add the figures in column D (Sales Price) for all transactions not involving options. Make sure that you do not include any mark-to-market transactions (status Open at Year End Purchase). When you get done, this will match your 1099.

When you reconcile total securities sales including options your options total, you need to take note that there are two transaction types on your tax worksheet that are not reported by Penson. The first is exercises and assignments on cash-settled options. Penson processes those as cash journals, not as trades, so they do not appear on your tax statement from them. These transactions are the closeouts of open index positions and although you have to report them (which is why we include them on the tax worksheet), they are absent from the Penson reports. In addition, since we mark to market all of your long positions for information purposes, we are showing sales or purchases that have not actually occurred and will be removed from the calculation.

Copy your the option trade data from your tax worksheet data over to a new worksheet and then remove all cash-settled exercises. Next remove all of those "Open at Year End Purchase" trades, as those are long positions that are marked to market. Also remove the "Carried Over from Prior Year ..." trades where the date sold is "1/1/2005". These are long positions carried over from the prior year that were marked to market coming into this year. Sum Column D E and your figure will match the Penson total securities proceeds value you calculated earlier. be your total options sold.

Then copy the option trade data to a second worksheet and do the same operation to get your total purchases. Remove all cash-settled assignments and "Open at Year End Sale" trades, as those are long positions that are marked to market. Also remove the "Carried Over From Prior Year..." trades where the purchase date is "1/1/2005". These are short positions carried over from last year that were marked to market coming into this year. Sum Column F and your figure will be your total options purchased.

Subtract your options purchased from options sold and your result will match the amount shown on the Penson tax report as "Total Options".