

About Day-Trading as Self-Employment

Some clients who buy and sell securities may self-identify as “day-traders”. They may list their occupation as “day-trader” on **Form 13614-C**. However, the IRS has set definitions for what securities activity is considered “trading” and what activity is considered “investment”.

Typically, clients who buy or sell securities are considered **investors** by the IRS. Investors buy and sell securities and hold them for personal investment. Most investors are individuals and hold these securities for a substantial period of time. They are not conducting a trade or business. These investors will receive **Form 1099-DIV** and report their gains and/or losses on **Schedule D, Capital Gains and Losses**.

To be a **trader** in securities by the IRS definition, you must meet all of the following conditions:

- You must seek to profit from daily market movements in the prices of securities and not from dividends, interest, or capital appreciation;
- Your activity must be substantial; and
- You must carry on the activity with continuity and regularity.

The law considers a trader in securities to be self-employed, even though a trader doesn't maintain an inventory and doesn't have customers. Traders report their business expenses on **Schedule C, Profit or Loss From Business**. Commissions and other costs of acquiring or disposing of securities aren't deductible but must be used to figure gain or loss upon disposition of the securities. Gains and losses from selling securities from being a trader aren't subject to self-employment tax.

A taxpayer may be both a trader and an investor. A taxpayer may be a **trader** in some securities and may hold other securities for investment. The special rules for traders don't apply to those securities held for investment. A trader must keep detailed records to distinguish the securities held for investment from the securities in the trading business. The securities held for investment must be identified as such in the trader's records on the day he or she acquires them (for example, by holding them in a separate brokerage account).

For more information, see [IRS Topic 49: Traders in Securities](#).

How To Assist the Taxpayer

Reporting investment income as self-employment on **Schedule C** is **out of scope for VITA**. Special Tax Services will not prepare these tax returns.

Refer the taxpayer to an outside tax preparation resource, as outlined in this bilingual handout: [We Cannot Prepare Your Return](#).