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Debbie Weber Photography

STOCK TRADING APPS: *The Taxing Truth*

A lifetime of events has happened since, but do you remember the GameStop stock trading fiasco mere weeks ago? The event held several financial lessons, but let's focus on just one: Brokerage digital apps like Robinhood have famously made trading stock an everyday man's game. But it's leaving many new investor hobbyists with shocking tax bills.

Investment and stock trading apps started trending a few years ago. It can be easy and downright addicting to throw a few dollars in every month (or more often) and choose where to invest—all through just a few smartphone clicks and swipes. Robinhood became the new poster child of these apps, thanks to its involvement in the GameStop event. But E*TRADE, Acorns, SoFi and some familiar names like TD Ameritrade, Charles Schwab and Fidelity have similar zero-commission brokerage services available through apps.

WHY ARE THEY TAXED?

If you've traditionally traded within a retirement account like a Roth IRA, you may be used to enjoying tax-free gains in the stock market. But certain apps like Robinhood don't allow customers to trade within retirement plans. Gains in these accounts are instead taxed as investment income.

"So traders who sell winners need to set aside cash or have a strategy for paying taxes when they come due. Estimated quarterly payments may also be required, and there's a penalty for noncompliance," warns The Wall Street Journal.

These apps are also designed to make you trigger-happy: buying and selling faster than you usually would. This can cost you extra when it comes to taxes. When you hold onto investment gains for a while, you can qualify for a more advantageous capital gains tax. But when you sell gains quickly—within one year—that's called a short-term gain, which is taxed at the higher ordinary income tax rate.

OTHER COMPLICATIONS

Every transaction made in a taxable account must be reported and provided to you on a special 1099. When you trade hundreds—maybe even thousands—of times, that's a lot of paperwork. TD Ameritrade's guide to its 1099s alone is 35 pages long. The document is meant to summarize what you'll see in the actual 1099 forms you'll receive. Many app-based traders who make money in the stock market receive hundreds of pages of tax documents that they must then make sense of before taxes are due.

Dozens of transaction types result in varying degrees of taxation. Did you receive money on dividends? Did you participate in a "wash sale" of stock? Did you sell fractional shares? Did you

use options instead of purchasing stocks outright? Did you trade silver or other precious metals? Or did you trade enough for your new hobby to be considered a business? Each of these activities can affect the taxes you owe, some positively, some negatively.

The bottom line is to respect these apps and the power they hold. Trading on your phone may feel like a game, but it can bear substantial financial risks and can lead to surprising tax obligations. Be prepared by consulting your tax advisor early and often as events unfold.

Steven Bankler has more than 44 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA, Ltd.

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