



Interactive Brokers

presents:

Managing Capital Gains with Tax Optimizer

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Webinar begins @ 12:00 pm EDT



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What's In This Webinar

- **Overview**
- **Basics of Lot Matching**
- **The Lot Matching Methods**
- **Tax Optimizer Demo**
- **Corporate Actions**
- **For More Information**

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Overview

- **Java-based program available in Account Management**
- **Manage your gains and losses by changing the lot-matching method**
- **Immediately see the effect on your realized gains and losses**

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Overview

What Can You Do in Tax Optimizer

- **Change the default tax lot-matching method for your account**
- **Change the default tax lot-matching method for current or prior trading day**
- **Change the tax lot-matching method for a specific symbol for current or prior trading day**
- **Run real-time what-if scenarios by changing the lot-matching method on the fly**
- **Manually match specific sales to open tax lots for current or prior trading day**
- **View a Year-to-Date Summary of profit and loss**

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Overview

View Closed Lots on Statements

Trades											
Symbol	Date/Time	Exchange	Quantity	T. Price	C. Price	Proceeds	Comm/Tax	Basis	Realized P/L	MTM P/L	Code
Stocks											
USD											
-ADES	2014-07-30, 11:11:49	-	-400	20.2500	21.1300	8,100.00	-1.98	-10,493.19	-2,395.17	-352.00	P;C
ADES	2014-07-30, 11:11:49	ARCA	-100	20.2500	21.1300	2,025.00	-1.04	-2,466.80	-442.85	-88.00	P;C
Closed Lot:	2014-06-02		100	24.668042				2,466.80	-442.85		ST
ADES	2014-07-30, 11:11:49	IBKRATS	-100	20.2500	21.1300	2,025.00	-0.04	-2,467.29	-442.33	-88.00	P;C
Closed Lot:	2014-06-02		100	24.672897				2,467.29	-442.33		ST
ADES	2014-07-30, 11:11:50	ARCA	-100	20.2500	21.1300	2,025.00	-0.44	-2,748.30	-723.74	-88.00	P;C
Closed Lot:	2014-06-02		100	27.482975				2,748.30	-723.74		ST
ADES	2014-07-30, 11:11:50	IBKRATS	-100	20.2500	21.1300	2,025.00	-0.44	-2,810.80	-786.24	-88.00	P;C
Closed Lot:	2014-06-03		100	28.107978				2,810.80	-786.24		ST
-ADES	2014-07-30, 11:11:58	-	-600	20.25335	21.1300	12,152.01	-3.07	-16,821.59	-4,672.65	-525.99	P;C
ADES	2014-07-30, 11:11:58	IBKRATS	-100	20.2500	21.1300	2,025.00	-1.04	-2,790.77	-766.82	-88.00	P;C
Closed Lot:	2014-06-03		100	27.907736				2,790.77	-766.82		ST
ADES	2014-07-30, 11:11:58	ISLAND	-100	20.2500	21.1300	2,025.00	-0.04	-2,789.81	-764.85	-88.00	P;C
Closed Lot:	2014-06-03		100	27.898099				2,789.81	-764.85		ST
ADES	2014-07-30, 11:19:06	DARK	-100	20.2601	21.1300	2,026.01	-0.34	-2,810.80	-785.13	-86.99	P;C
Closed Lot:	2014-06-03		100	28.107995				2,810.80	-785.13		ST
ADES	2014-07-30, 11:19:06	ISLAND	-200	20.2500	21.1300	4,050.00	-1.09	-5,620.01	-1,571.10	-176.00	P;C
Closed Lot:	2014-06-03		200	28.100043				5,620.01	-1,571.10		ST
ADES	2014-07-30, 11:19:06	BEX	-100	20.2600	21.1300	2,026.00	-0.54	-2,810.20	-784.74	-87.00	P;C
Closed Lot:	2014-06-03		100	28.10198				2,810.20	-784.74		ST
Total ADES			-1,000			20,252.01	-5.05	-27,314.78	-7,067.82	-877.99	
+BKESY	2014-07-30, 12:48:01	-	10,000	0.4890	0.4740	-4,890.00	-24.45	4,914.45	0.00	-150.00	O
+BKESY	2014-07-30, 12:56:03	-	10,000	0.4890	0.4740	-4,890.00	-24.45	4,914.45	0.00	-150.00	P;O
Total BKESY			20,000			-9,780.00	-48.90	9,828.90	0.00	-300.00	
Total						10,472.01	-53.95	-17,485.88	-7,067.82	-1,177.99	

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Basics of Lot Matching

How Securities are Taxed

- You are not taxed while holding a position
- You are only taxed when you close a position
- You are taxed on received dividends and interest

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Basics of Lot Matching Gains and Losses

- **Long-term gains:** Gains from securities held over one year, taxed at lower rate
- **Short-term gains:** Gains from securities held one year or less, taxed at higher rate
- **Adjusted Cost Basis:** the original value of an asset for tax purposes adjusted for stock splits, dividends and return of capital distributions

When a position is closed, calculate the gain or loss using this formula:

Proceeds (less Commissions) – Adjusted Cost Basis = Gain or Loss

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Basics of Lot Matching Tax Lots

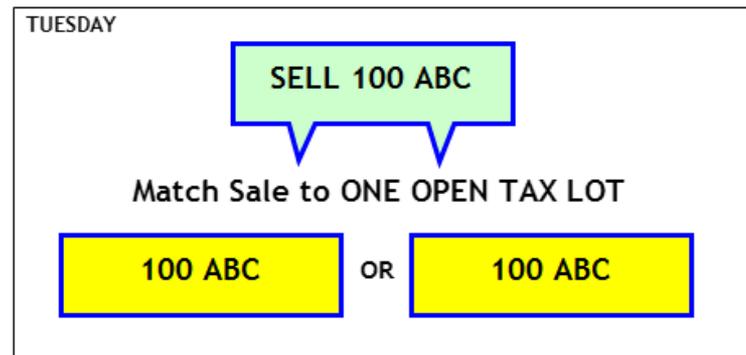
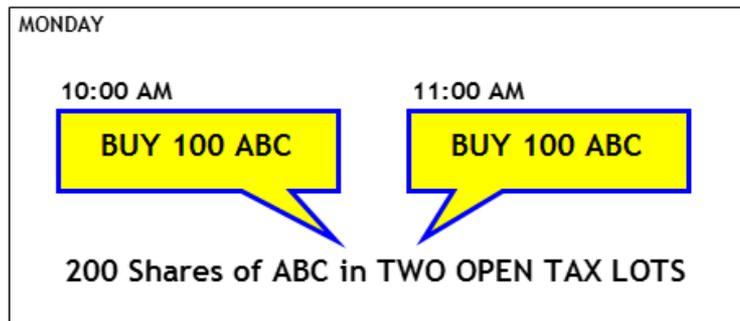
- **Tax Lot: A purchase of a specific security at a specific time and price.**
- **If you sell all shares of a security in a single trade, computing the gain or loss is easy; subtract the cost basis for all of the shares from the proceeds of the sale.**
- **If you sell some but not all of the shares of a security, you must identify which shares were sold before you can compute the gain or loss. You do this by matching tax lots.**

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Basics of Lot Matching

Tax Lot Example



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Lot Matching Methods Allowed By the IRS

- **FIFO (First In, First Out)**
- **Specific Identification**
- **Average Cost (NOT available at IB)**

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Lot Matching Methods

- **FIFO (First In, First Out)**
- **LIFO (Last In, First Out)**
- **Maximize Long Term Gain**
- **Maximize Long Term Loss**
- **Maximize Short Term Gain**
- **Maximize Short Term Loss**
- **Highest Cost**
- **Specific Lot**

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Lot Matching Methods

First In, First Out (FIFO)

- **Default method under IRS code for matching tax lots**
- **Sales are paired with the earliest purchases sequentially**
- **IB assumes all accounts are using this method unless an algorithm or the tax optimizer is used to designate another method**
- **FIFO is the only method allowed for short positions and for securities that you were short the previous night**

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Lot Matching Methods

Last In, First Out (LIFO)

- Each sale is paired with the most recent possible purchase.
- LIFO assumes that an entity sells, uses or disposes of its newest inventory first.

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Lot Matching Methods Maximize LT Gain

Sales are paired based on the following set of priorities:

- 1. Maximize Long-Term Gain per share**
- 2. Maximize Short-Term Gain per share**
- 3. Minimize Short-Term Loss per share**
- 4. Minimize Long-Term Loss per share**

If there are no possible matches that would result in a long-term gain, the method tries for a match that would result in the short-term gain, and so on



Lot Matching Methods

Maximize LT Loss

Sales are paired based on the following set of priorities:

- 1. Maximize Long-Term Loss per share**
- 2. Maximize Short-Term Loss per share**
- 3. Minimize Short-Term Gain per share**
- 4. Minimize Long-Term Gain per share**

If there are no possible matches that would result in a long-term loss, the method tries for a match that would result in the short-term loss, and so on

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Lot Matching Methods

Maximize ST Gain

Sales are paired based on the following set of priorities:

- 1. Maximize Short-Term Gain per share**
- 2. Maximize Long-Term Gain per share**
- 3. Minimize Long-Term Loss per share**
- 4. Minimize Short-Term Loss per share**

If there are no possible matches that would result in a short-term gain, the method tries for a match that would result in the long-term gain, and so on

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Lot Matching Methods

Maximize ST Loss

Sales are paired based on the following set of priorities:

- 1. Maximize Short-Term Loss per share**
- 2. Maximize Long-Term Loss per share**
- 3. Minimize Long-Term Gain per share**
- 4. Minimize Short-Term Gain per share**

If there are no possible matches that would result in a short-term loss, the method tries for a match that would result in the long-term loss, and so on



Lot Matching Methods

Highest Cost

- **Maximize losses while minimizing gains**

Sales are paired based on the following rules:

- 1. Look at all possible options for matching a closing trade to an open lot**
- 2. If any possible matches would result in a loss, the method chooses the match that would result in the largest possible loss**
- 3. If no possible match would result in a loss, the method chooses the match that would result in the smallest possible gain**

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Lot Matching Methods

Specific Lot

- Available as default for a particular day or for a particular security
- Requires that you manually match all closing trades subject to this method.
- Offers the greatest flexibility.

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Simple Lot Matching Example

Basic Scenario

A customer makes the following purchases:

- **Lot 1: Jan 14, 2011: 1 Share of ABC at \$10.**
- **Lot 2: Mar 14, 2011: 1 Share of ABC at \$40.**
- **Lot 3: May 14, 2011: 1 Share of ABC at \$30.**
- **Lot 4: Jul 14, 2011: 1 Share of ABC at \$20.**

The same customer makes the following sales:

- **Sale 1: April 15, 2012 at 10:00AM: 1 share of ABC at \$25.**
- **Sale 2: April 15, 2012 at 12:00PM: 1 share of ABC at \$35.**
- **Sale 3: April 15, 2012 at 2:00PM: 1 share of ABC at \$15.**

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Lot Matching Example

FIFO Lot Matching

A customer makes the following purchases:

- Lot 1: Jan 15, 2011: 1 Share of ABC at \$10.
- Lot 2: Mar 15, 2011: 1 Share of ABC at \$40.
- Lot 3: May 15, 2011: 1 Share of ABC at \$30.
- Lot 4: Jul 15, 2011: 1 Share of ABC at \$20.

The same customer makes the following sales:

- Sale 1: April 15, 2012 at 10:00AM: 1 share of ABC at \$25.
- Sale 2: April 15, 2012 at 12:00PM: 1 share of ABC at \$35.
- Sale 3: April 15, 2012 at 2:00PM: 1 share of ABC at \$15.

- Sale 1 is matched with Lot 1 for a long-term gain of \$15
- Sale 2 is matched with Lot 2 for a long-term loss of \$5
- Sale 3 is matched with Lot 3 for a short-term loss of \$15

The customer has a net long-term gain of \$10, a net short-term loss of \$15, and a basis of \$20 and holding period starting July 15, 2011 for the remaining open lot.

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Lot Matching Example

LIFO Lot Matching

A customer makes the following purchases:

- Lot 1: Jan 15, 2011: 1 Share of ABC at \$10.
- Lot 2: Mar 15, 2011: 1 Share of ABC at \$40.
- Lot 3: May 15, 2011: 1 Share of ABC at \$30.
- Lot 4: Jul 15, 2011: 1 Share of ABC at \$20.

The same customer makes the following sales:

- Sale 1: April 15, 2012 at 10:00AM: 1 share of ABC at \$25.
- Sale 2: April 15, 2012 at 12:00PM: 1 share of ABC at \$35.
- Sale 3: April 15, 2012 at 2:00PM: 1 share of ABC at \$15.

- Sale 1 is matched with Lot 4 for a short-term gain of \$5.
- Sale 2 is matched with Lot 3 for a short-term gain of \$5.
- Sale 3 is matched with Lot 2 for a long-term loss of \$25.

Customer has a net long-term loss of \$25, a net short-term gain of \$10, and a basis of \$10 and holding period starting January 15, 2011 for the remaining open lot.

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Tax Optimizer Demo

IB Tax Optimizer

Today's P/L: 6,591.58 + Short Term: 6,591.58 + Long Term: 0.00 + Time Remaining 09:44 • Mon Feb 4

Account Default Match Method: First In, First Out (FIFO) Today's Match Method: First In, First Out (FIFO) Save Refresh

Stocks Options Bonds Warrants SIFs LTD Summary

Symbol	Method	Short Term P/L	Long Term P/L	Tax Lot Details
A	First In, First Out (FIFO)	0.00 +	0.00 +	Show
AAPL	First In, First Out (FIFO)	-569.00 +	0.00 -	Hide
AAWW	First In, First Out (FIFO)	0.00 +	0.00 +	Show
BIDU	First In, First Out (FIFO)	0.00 +	0.00 +	Show
BRCM	First In, First Out (FIFO)	0.00 +	0.00 +	Show
BRK A	First In, First Out (FIFO)	-641.00 +	0.00 +	Show
DMD	First In, First Out (FIFO)	0.00 +	0.00 +	Show
G	First In, First Out (FIFO)	0.00 +	0.00 +	Show
Total Stocks		-652.38 +	0.00 +	

Tax Lot Details - AAPL Today's Match Method for AAPL: First In, First Out (FIFO)

Date/Time	Open/Close	Price	Lot Qty	Unmatched Open Qty	Short Term P/L	Long Term P/L	Match Details
2012-02-29 09:46:54	O	544.01	100	0	-70.00 +	0.00 -	Show
2012-02-29 09:49:38	O	545.30	100	0	-499.00 +	0.00 -	Show
2012-02-29 09:52:53	O	545.12	100	100	-	-	
2012-02-29 10:06:24	C	543.31	-100	-	-	-	
2012-02-29 10:22:23	C	540.31	-100	-	-	-	
Total for AAPL			100	100	-609.00 +	0.00 -	

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Corporate Actions

- **May produce scenarios where symbol A depends on symbol B.**
- **If B is changed to Specific Lot, A will automatically be switched to specific lot as well.**
- **If B is not fully matched and you try to use Specific Lot to match A or change A's lot-matching method, a warning message is displayed: "Before matching A, the following must be fully matched: B."**
- **Identified in Tax Lot Details panel and Match Details window with C icon.**

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For More Information

- **Tax Optimizer Users' Guide – Online help or PDF**
On our website (Education > Documentation):

The screenshot shows the Interactive Brokers website interface. At the top, there is a navigation bar with links for 'WHY IB', 'COSTS', 'TRADING', 'PRODUCTS', 'EDUCATION', and 'ABOUT IB'. Below this is a 'Traders' University' section with various educational resources. The 'Documentation' icon is highlighted with a red box. The main content area features a 'Users' Guides' section with a list of guides, including 'Tax Optimizer' which has 'Online' and 'PDF' buttons.

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