Douglas Capital Management, LLC

FAQ: Tax Issues

Questions about tax issues also come up often. Here are some of the most common ones:

Are you going to be issuing K-1's, 1099-INT's, and 1099-DIV's?

You would set up an account with a broker (preferably Interactive Brokers). DCM would then trade on your behalf in the brokerage account you established. At the end of the year, the brokerage firm will send you the 1099-INT and 1099-DIV. If you chose to go with Interactive Brokers, they would send you an annual statement that detailed the amount of account management fees you paid over the course of the year. If you have an account with a different broker, DCM will send you the statement describing your account management fees for the year. Those fees are then tax deductible.

Because DCM trading strategies involves a relatively high turnover rate, targeted at 200% or 800%, most of the profits generated are in the form of short-term capital gains. These short-term capital gains will be taxed at relatively high rates. That is why it is best to have DCM start managing some of your funds in your tax-sheltered accounts. In tax sheltered accounts, you will not receive the 1099-INT and 1099-DIV forms, however you will still receive an annual statement describing the account management fees you paid, and those fees are tax-deductible

This link describes the two different ways DCM manages accounts for clients. This link describes the account management fees for each.

You will not receive K-1 forms from Douglas Capital Management, LLC because you are a client of Douglas Capital Management, LLC, not a partner of DCM. However Douglas Capital Management, LLC may invest in shares of Master Limited Partnerships. When that happens you will usually receive K-1 forms from the Master Limited Partnerships in Feburary or March of the following year.

How do your pre-tax returns and after-tax returns compare?

For taxable investments, you can expect to pay short-term capital gains on about 80% of the trading profits so you can predict your expected post-tax returns as follows:

Expected Pre-Tax rate of Return * (0.8 * (1 – short-term capital gains tax rate) + 0.1 * (1- long-term capital gains tax rate) + 0.1 * (1- dividend tax rate))

Still have questions? Please contact us anytime! We look forward to hearing from you. Send an email to brettldouglas@dcm-llc.com.

4 Windsong Way
Bloomington, IL 61704
ph: 309-807-5637
fax: 309-412-1001
brettldouglas@dcm-llc.com