FRONTIER
WEALTH MANAGEMENT

BASIC INCOME TAX STRATEGIES:

MINIMIZE TAX LIABILITY OVER YOUR LIFETIME

- ❐ MAXIMIZING W-2 INCOME TAX DEDUCTIONS/MINIMIZING TAXABLE EARNED INCOME
- ❐ INVESTMENTS
- ❐ BUSINESS/SELF-EMPLOYMENT/ OTHER INCOME
- ❐ RETIREMENT TAX-EFFICIENCY
- ❐ ITEMIZED DEDUCTIONS
- ❐ COLLEGE PLANNING

1. MAXIMIZING W-2 INCOME TAX DEDUCTIONS/MINIMIZING TAXABLE EARNED INCOME

- **Retirement accounts:** maximize contributions to a 401(k) / 403(b) / 457 (or alternatively, taking advantage of Roth retirement accounts)
- **Flexible Spending Accounts (FSAs):** use for medical expenses, especially now that the "use-it-or-lose-it" provision is generally gone
- **Health Savings Accounts (HSAs):** use for medical expenses, but also to invest for a longer-term using potentially tax-free growth and tax-free distributions, acting as an additional retirement account with no Required Minimum Distributions
- **Dependent Care:** use to help pay for childcare (or other dependent care)
- **Deferred compensation:** to incur income upon retirement while potentially in lower tax bracket than while currently working in a higher tax bracket

2. INVESTMENTS

- **Tax-exempt vs. taxable income:** investing in municipal bonds generally provide tax-free income at both the federal and state levels; however, taxable income could incur a tax rate as high 43.4%, plus state income taxes.
- **Interest and ordinary dividends vs. qualified dividends:** unless desired for income purposes, minimizing interest & ordinary dividends and focusing more on growth within taxable accounts could enable more tax-efficient savings and accumulation.
- **Tax-efficient asset accumulation, including the use of ETFs:** ETFs are generally more tax-efficient than mutual funds, as actively managed mutual funds could realize capital gains when the portfolio manager sells positions within the fund.

- **Capital gains (or losses):** taking advantage of offsetting capital loses with capital gains in order to minimize tax liabilities
- **Charitable Gifting / Donor Advised Funds:** generally enables a more tax-efficient deduction by deducting the value of the appreciated asset given to a qualified charity; alternatively, in order to time or maximize a deduction in a given year, the appreciated asset could be given to a Donor Advised Fund for future charitable giving and distributions
- **Stock option planning/forecasting:** implementing a path to exercise all types of stock options most tax-efficiently over a period of time, as opposed to just on an annual basis, frequently taking advantage of an 83(b) tax election
- **Net investment income tax/Medicare surtax planning:** planning investment income and timing around exposure to the 3.8% Medicare surtax for certain individuals

3. BUSINESS/SELF-EMPLOYMENT/OTHER INCOME

- **Business income structure:** determining how a business should elect to be taxed (generally as an S-Corp or C-Corp, versus as a sole proprietor)
- **Active participation:** enabling a taxpayer to qualify as an active participant (not simply incurring passive income) in order to help potentially incur more tax deductions against ordinary income
- **Retirement account options:** determining the optimal retirement account (i.e. 401(k), solo 401(k), IRA, Roth IRA, SIMPLE IRA, or SEP IRA) in order to maximize retirement account contributions (and consequently tax deductions)
- **Business sale/buy-out:** structuring a business sale in the most tax-efficient manner

4. RETIREMENT TAX-EFFICIENCY

- **Tax-efficient withdrawal strategy among various account types:** determining which asset-type (or a combination thereof) should be spent in a given order to minimize taxes over several decades while entering retirement
- **Required Minimum Distribution (RMD) tax planning and timing:** timing of retirement assets depending upon the anticipated amount of the RMD, spending, and overall tax projections (not just a one-year event)
- **Roth IRA Conversions:** in "low income tax years," taking advantage of converting some tax-deferred asset to Roth assets (which generally become a tax-free asset) by arbitraging tax rates, knowing that the conversion could have up to 21 months to be undone
- **Taxation of Social Security benefits:** minimizing the amount of Social Security subject to income taxes based up other sources of income
- **Utilizing 0% long-term capital gains:** in certain years, assets could be sold at a 0% long-term capital gains rate, enabling more tax-efficient planning for highly appreciated assets or stock concentrations
- **Qualified Charitable Distributions (QCDs):** planning of some RMDs to be given to charity (which is always as advantageous or more advantageous than simply giving a charity cash)
- **Income affecting Medicare premiums:** planning of income and associated timing in order to help keep Medicare premiums under various income thresholds

5. ITEMIZED DEDUCTIONS

- **"Grouping" deductions:** by timing certain itemized deductions together, more itemized deductions could be realized in a given year than the standard deduction in certain years

- **Charitable gifting strategies:** determining if cash, appreciated assets, or IRA assets would be optimal over time to give to a charity
- **Itemized deduction & personal exemption phase-out planning:** planning on the type of asset and timing of the asset in order to not incurr a reduction in itemized deductions and personal exemption due to income limitations

6. COLLEGE PLANNING

- **Tax credits & associated income limitations:** determining the type of tax credit to use based upon other assets used to fund college-related expenses, year the dependent is in school, length of school remaining, and current income (which affects the ability to use tax credits)
- **Tax Deductions & associated income limitations:** in conjunction with tax credits, determining if a tax deduction should be used based upon other assets used to fund college-related expenses
- **529 Plan state tax benefits:** enables potentially tax-free growth and accumulation, as well as and tax-free distributions for college-related expenses. Based upon income limitations associated with college-related tax credits and tax deductions, 529s (which generally provide a state income tax deduction) could enable the most tax-efficient means for saving and paying for college-related expenses.