1 Why proactive tax planning matters

Every untaxed rupee left in your pocket compounds alongside investment returns; every avoidable penalty or surtax erodes capital. Tax planning optimises **timing, character, and location of income and deductions** so lifetime after-tax wealth is maximised within legal rules. (IRS)

2 Core building blocks

- **Tax brackets** – progressive marginal rates applied to taxable income.

- **Filing status** – single, married filing jointly/separately, head of household.

- **Above-the-line deductions** – reduce adjusted gross income (AGI); examples: HSA contributions, traditional IRA deductions, student-loan interest.

- **Standard vs. itemised deduction** – choose higher.

- **Tax credits** – dollar-for-dollar offset (e.g., child tax credit, lifetime learning credit).

- **Alternative Minimum Tax (AMT)** – parallel system with its own exemption and rates. (IRS)

3 Ordinary income vs. preferential income

- **Ordinary** – wages, interest, short-term capital gains, non-qualified dividends; taxed up to the top bracket.

- **Preferential** – qualified dividends and long-term capital gains; 0 %, 15 %, 20 % tiers plus 3.8 % net-investment-income tax (NIIT) above thresholds.

Planning defers ordinary income and accelerates preferential treatment when possible. (Voya Presents)

4 Key annual thresholds (tax year 2025)

- 0 % LTCG ceiling: $47 025 single, $94 050 joint.
- 3.8 % NIIT kicks in: $200 k single, $250 k joint.
- Social Security wage base: $172 200.
- Standard deduction: $14 850 single, $29 700 joint. (Voya Presents)

5 Tax-advantaged account hierarchy

1. **Health Savings Account (HSA)** – triple tax-free if used for medical expenses; $4 150 single/$8 300 family + $1 000 catch-up.
2. **Pre-tax workplace plan** (401(k), 403(b), 457): $23 000 elective deferral + $7 500 catch-up.
3. **Roth IRA/401(k)** – after-tax now, tax-free qualified withdrawals.
4. **Traditional IRA** – $7 000 contribution ($8 000 age 50 +); deductibility phases out.
5. **529 plan** – tax-free for qualified education; many states give deductions. (institutional.fidelity.com)

6 Asset location strategy

Place high-yield bonds, REITs, active funds, and high-turnover strategies inside tax-deferred or Roth wrappers. Hold index equities, municipal bonds, and ETFs in taxable accounts to exploit lower LTCG/dividend rates and minimise turnover. Over a 30-year horizon, location alpha can add 30-50 bps annually. (institutional.fidelity.com)

7 Tax-loss harvesting (TLH)

Harvest unrealised losses in taxable accounts to offset realised gains plus $3 000 ordinary income per year; excess carries forward indefinitely. Apply **wash-sale** rule: avoid repurchasing "substantially identical" security within 30 days before/after the sale. ETFs tracking different indices provide easy substitutes. (institutional.fidelity.com)

8 Gain-harvesting in low brackets

Retirees or sabbatical years may fall into the 0 % LTCG bracket. Intentionally realise gains up to the threshold, then immediately repurchase to step up basis without tax cost. Coordinate with Roth conversions to manage AGI ceiling. (Vanguard)

9 Timing income and deductions

- Shift discretionary income (bonuses, consulting invoices) into a lower-tax year when possible.
- Bunch charitable gifts and medical expenses to exceed standard deduction every other year.
- Prefund donor-advised fund (DAF) in high-income year for immediate deduction; grant gifts later. (SEC)

10 Charitable giving levers

- **Cash gifts** – deductible up to 60 % of AGI.
- **Appreciated securities held > 1 year** – deduct fair-market value up to 30 % AGI; avoid embedded gain.
- **Qualified charitable distribution (QCD)** – direct IRA transfer up to $100 000 (indexed) after age 70 ½; counts toward RMD, excluded from income. (SEC)

11 Family income-shifting

- Employ children in family business; wages deductible to parent, taxed to child (standard deduction shelters ≈ $14 k).
- Contribute to custodial Roth IRA if child has earned income.
- Use 529 "super-funding": five-year gift-tax averaging to front-load education savings without gift-tax filing beyond Form 709. (Fidelity)

12 Small-business owner tactics

- Choose optimal entity—S-corp salary/dividend split vs. sole proprietor QBI 20 % deduction.
- Section 179 and bonus depreciation accelerate equipment write-offs.
- Home-office deduction: square-foot method up to $1 500 or actual expenses prorated.
- Accountable plan reimburses business use of personal car/phone tax-free. (Fidelity)

13 Estate and gift tax co-ordination

- Annual exclusion: $18 000 / donee (2025).
- Lifetime unified credit: $13.61 m individual; scheduled sun-set halves amount in 2026—front-load gifts if estate size warrants.
- Spousal portability preserves unused exemption but requires timely Form 706.
- Basis step-up at death wipes unrealised gains; hold low-basis assets until death if estate below exemption. (IRS)

14 Social Security and Medicare surtaxes

- Social Security benefits become taxable when provisional income exceeds $25 k single/$32 k joint; up to 85 % may be included.
- Medicare Part B & D premiums rise through income-related adjustment amounts (IRMAA) starting at $103 000 single/$206 000 joint MAGI tiers. Roth withdrawals, QCDs, and muni bond interest can manage MAGI. (IRS)

15 Net-investment-income tax (NIIT) shields

NIIT (3.8 %) applies to investment income above $200 k single/$250 k joint. Exclusions: municipal-bond interest, distributions from Roth accounts, HSA interest, QCD flows. Tax-loss harvesting and real-estate depreciation lower net investment income. (institutional.fidelity.com)

16 State-level nuances

State income tax often differs in bracket thresholds and treatment of pensions, Social Security, and capital gains. Seven U.S. states have no income tax; others (e.g., Illinois) exempt retirement income. Residency audits weigh domicile factors—voter registration, driver's license, time spent. Maintain evidence if moving for tax reasons. (Vanguard)

17 International / NRI considerations

Non-resident Indians subject to U.S. tax on U.S.-source income but claim treaty benefits to avoid double taxation. Passive Foreign Investment Company (PFIC) rules penalise offshore mutual-fund holdings; choose U.S.-domiciled ETFs to sidestep PFIC. Foreign tax credit Form 1116 prevents double tax on foreign dividends. (SEC)

18 SECURE 2.0 impacts

- Higher catch-up contributions indexed.
- Roth treatment mandatory for catch-ups above wage thresholds.
- SIMPLE and SEP Roth options.
- Penalty-free $1 000 emergency IRA withdrawal once per year.
- 529-to-Roth rollovers up to $35 000 lifetime after 15 years. Incorporate these when modelling future taxable income and cash needs. (institutional.fidelity.com)

19 Tax compliance checklist

1. Organise Form W-2, 1099 series, 1098 mortgage interest, K-1.

2. Verify cost basis in brokerage 1099-B; correct errors before filing.

3. Track charitable receipts; keep contemporaneous acknowledgments > $250.

4. Maintain mileage logs and Section 179 asset lists five years post-filing.

5. Retain tax returns a minimum seven years; indefinitely if reporting basis. (SEC)

20 Documentation for audit defence

IRS Publication 17 outlines required records: income, deductions, property basis, and health-insurance coverage. Digital vaults with encryption safeguard against loss; grant spouse/ executor access codes to ensure continuity. (IRS)

21 Annual planning calendar

- **January** – update W-4, establish bookkeeping files.
- **April 15** – fund prior-year IRA/HSA, file or extend return.
- **June** – project year-end AGI; adjust estimated taxes.
- **September** – harvest losses or gains, decide on Roth conversions.
- **December 31** – complete RMDs, QCDs, charitable gifting, salary-deferral changes. Timing ensures latitude to correct shortfalls before penalty windows shut. (institutional.fidelity.com)

22 Behavioral pitfalls

Waiting until March to hunt for deductions leads to missed opportunities; acting weekly or monthly beats year-end scrambles. Anchoring on refunds rather than effective tax rate distorts decisions; refunds merely reflect over-withholding. Automation—payroll HSA deferrals, quarterly estimated payments—frees cognitive bandwidth. (Fidelity)