TAX BRACKET MANAGEMENT

STRATEGIES TO TAKE ADVANTAGE OF LOWER CURRENT TAX RATES

TAX ALPHA COMPANIES

Managing your tax bracket involves utilizing strategies to take advantage of lower current tax rates instead of potentially higher rates in the future. Common techniques used are Roth conversions, tax-loss harvesting, tax-gain harvesting, managing qualified distributions from retirement accounts, and charitable giving. Understanding how different income ranges are taxed and positioning income within favorable tax brackets can help reduce your lifetime taxes and enhance your after-tax wealth. Almost everyone, regardless of their current tax bracket, can benefit from tax bracket management.

MANAGING TAXABLE INCOME

Knowing your marginal tax rates, you might discover that you can add more income to your current tax bracket without moving into a higher one. For instance, investors currently in a lower tax bracket than they expect to be in the future can benefit from actions like partial Roth conversions or tax-gain harvesting now. Conversely, those in higher tax brackets might lower their current tax bill by contributing to pre-tax retirement accounts or health savings accounts (HSAs) or through strategic charitable donations.

DETERMINING YOUR TAX BRACKETS

Start by estimating your current-year income and identifying your marginal tax brackets before the year ends. Collaborate with a tax professional around mid-November for an accurate projection of your total taxable income. You need to forecast both your ordinary income tax bracket and your long-term capital gains tax bracket. Ordinary income generally includes wages and business income, while long-term capital gains arise from selling investments that were held for over a year and have appreciated in value. Investments sold within a year are considered short-term capital gains and taxed as ordinary income.

TAX BRACKETS

There are seven ordinary income tax brackets ranging from 10% to 37%. However, not all ordinary income ends up being taxable after deductions. Long-term capital gains have four brackets, ranging from 0% to 23.8%. The rate used for long-term gains starts where the last dollar of ordinary income ends.

2024 MARGINAL TAX BRACKETS

RATE	SINGLE FILER	MARRIED FILING JOINTLY
37%	>$609,350	>$731,200
35%	>$243,725	>$487,450
32%	>$191,950	>$383,900
24%	>$100,525	>$210,050
22%	>$47,150	>$94,300
12%	>$11,600	>$23,200
10%	≤$11,600	≤$23,200

Source: Internal Revenue Service.

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2024 LONG-TERM CAPITAL GAINS TAX RATES

TAXABLE INCOME	SINGLE FILER	MARRIED FILING JOINTLY
0%	≤$47,025	≤$94,050
15%	$47,026 - $518,900	$94,051 - $583,750
20%	>$518,900	>$583,750
23.8%	High-earning individuals may also need to account for the net investment income tax (NIIT), an additional 3.8% tax that can be triggered if your income exceeds a certain limit.	

Source: Internal Revenue Service.

EXAMPLES

1. **Increasing Taxable Income:** John and Sarah, a married couple with $95,000 in total ordinary income in 2023, can utilize long-term capital gains strategies to maximize their 0% long-term capital gains tax rate.

2. **Reducing Taxable Income:** Rick, a single filer with an income of $225,000, uses additional 401(k) and HSA contributions, along with harvesting capital losses, to stay within a lower tax bracket.

CONSIDERATIONS

Be mindful of the potential impacts of realizing additional income, such as increased taxation on Social Security benefits, the phase-out of deductions, and the importance of consulting a tax advisor for personalized advice.

EXPLORE TAX PLANNING STRATEGIES

Effective wealth management encompasses more than just investment strategies. It involves using tax planning techniques to optimize after-tax wealth. Collaborate with a wealth advisor and tax expert to explore various strategies and manage your taxes efficiently over time.

689.279.0829