



CLIENT STRATEGY GUIDE

Tax Planning Strategies

A two-part framework for reducing and offsetting tax exposure

A tax bill is rarely solved with a single strategy. Meaningful savings come from sequencing the right tools around decisions you already face: how income is earned, when gains are realized, and what happens to capital as it moves through your business, your investments, and your estate.

The strategies on the following pages are organized into two tracks. Track One works before income reaches your personal return. Track Two works afterward, offsetting income that has already been recognized. Neither track replaces a conversation with your CPA and legal counsel, and both work better as advance planning than as an April reaction.

TRACK ONE Reduce Income Before It Reaches Your Return

Entity structure, retirement plan design, and compensation strategy all operate at this level. A dollar that never reaches your Form 1040 is a dollar that was never taxed.

TRACK TWO Offset Income Already Recognized

Roth conversions, cost segregation, clean-energy credits, charitable structures, and capital-gain deferral tools may apply here. Each is one layer of a coordinated plan, not the whole plan.



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Areas We Cover

Which of These Apply to You?



PART ONE

Track One — Reduce Income Before It Reaches Your Return

TRACK ONE · 01

S-Corp Income Splitting

Only one part of your business income needs to carry a payroll tax.

Sole proprietors and partners pay self-employment tax on every dollar of business profit. An S corporation lets an owner who works in the business split that profit into two pieces: a reasonable W-2 salary, which carries payroll tax, and a K-1 distribution, which does not. On \$500,000 of business income with a \$150,000 salary, the payroll tax savings run close to \$17,000 a year, every year. The work is in setting a salary that a reviewer would call reasonable while keeping the distribution as large as the facts support.

BEST DEPLOYED WHEN

- At entity formation, before the first payroll run
- Each year as profit grows and the salary needs revisiting
- Ahead of year-end compensation decisions

TRACK ONE · 02

Defined Benefit / Cash Balance Plan

The largest pretax deduction most business owners never use.

A defined benefit or cash balance plan lets an owner fund whatever amount is actuarially needed to reach a guaranteed retirement benefit of up to \$290,000 a year. For an owner in their fifties with few or no employees, that can mean contributions above \$200,000 in a single year, deducted at the owner's top marginal rate. Layer a 401(k) profit-sharing plan on top and total annual deferrals can clear \$350,000 for the right owner.

BEST DEPLOYED WHEN

- Owners in their 50s with strong, consistent net income
- Ahead of a high-income year that needs a large deduction
- Businesses with no employees or very few covered employees



TRACK ONE · 03

Defined Contribution Plans (401(k), SEP-IRA, SIMPLE IRA)

Most owners max the 401(k) and call it a strategy. It is a starting point.

Not every business needs the complexity of a defined benefit plan. A 401(k) with profit sharing, a SEP-IRA, or a SIMPLE IRA may fit better for younger owners or those with employees. For 2026, participants age 50 and older can defer up to \$32,500 into a 401(k), and employer profit sharing can add up to 25% of covered compensation. The right structure depends on headcount, payroll design, and income level, and it is worth revisiting every year as the business changes.

BEST DEPLOYED WHEN

- At business formation
- When the business adds its first employees
- Every year as payroll and income evolve

TRACK ONE · 04

Augusta Rule (IRC §280A)

Rent your home to your own business. Keep the rent tax-free.

Section 280A lets an owner rent a personal residence to their business for up to 14 days a year and exclude that rent from personal income, while the business deducts the payment as an ordinary expense. The business has to be taxed as a partnership or corporation, the rent has to be supported by a fair-market appraisal, and each rental day needs a documented business purpose. Done correctly, this produces \$10,000 to \$30,000 a year in tax-free income.

BEST DEPLOYED WHEN

- Before year-end, while there is still time to document meetings
- When the business regularly hosts planning or board sessions
- Every year, with fresh documentation each time



TRACK ONE • 05

Hiring Your Children

You are paying tax at 37 cents on the dollar. Your child pays zero.

Paying a child a fair wage for real work in the business shifts income out of the parent's bracket and into the child's. In 2026, a child can earn up to the standard deduction amount tax-free, and wages paid by a parent-owned sole proprietorship or partnership to a child under 18 carry no payroll tax at all. A working child can also fund a Roth IRA with those wages, starting decades of tax-free growth. The strategy lives or dies on documentation of actual work performed.

BEST DEPLOYED WHEN

- Once a child is old enough to do real, verifiable work
- Before year-end payroll closes
- As the opening move in a long-term Roth strategy for the child

TRACK ONE • 06

Accountable Plan

One of the simplest strategies available, and one of the most overlooked.

An accountable plan lets a business reimburse an owner or employee for legitimate business expenses, home office, mileage, meals, and travel among them, without the reimbursement showing up as W-2 income or triggering payroll tax. The IRS asks for three things: the expenses have to be business-related, they have to be substantiated within 60 days, and any excess reimbursement has to be returned within 120 days. It is low-risk, inexpensive to set up, and worth checking every year.

BEST DEPLOYED WHEN

- At entity formation
- Before year-end
- Whenever business expenses are being paid out of personal funds



TRACK ONE · 07

Medical Expense Reimbursement Plan (MERP / §105)

The benefit has to be real. So does the paperwork.

A Medical Expense Reimbursement Plan, built under Section 105, lets an employer reimburse eligible medical expenses on a tax-advantaged basis when the plan is properly documented. Whether it fits depends on entity type, ownership, employee eligibility, and how it interacts with ACA and ERISA rules. This is not a plan to build without benefits and payroll counsel at the table.

BEST DEPLOYED WHEN

- Before benefits renew for the year
- When reviewing owner compensation and benefits together
- With benefits and payroll counsel involved from the start

TRACK ONE · 08

C-Corp Management Company

Some income is taxed at 37%. There is a lane in the structure where it is taxed at 21%.

A management company organized as a C corporation can bill an operating entity for services and pay tax on that income at the flat 21% corporate rate instead of the owner's individual rate. The C corp also becomes the vehicle for benefits that are harder to reach at the individual level, fully deductible health coverage, group term life, and defined benefit contributions among them. It has to perform real services at arm's-length rates. Done well, it is one of the stronger income-shifting tools available to a profitable owner.

BEST DEPLOYED WHEN

- When operating income consistently clears \$600,000
- Ahead of an unusually high-income year
- Alongside a defined benefit plan housed inside the C corp



TRACK ONE • 09

Bonus Depreciation (§168(k))

The tax code used to hand out deductions on a 39-year payment plan. Not anymore.

The One Big Beautiful Bill Act made 100% first-year bonus depreciation permanent, restoring full expensing for qualifying equipment, machinery, furniture, and certain improvements to nonresidential real property. Paired with a cost segregation study on a real estate purchase, which reclassifies building components into 5-, 7-, and 15-year property, the combination can produce a seven-figure first-year deduction. On a \$5 million commercial property with 30% of cost reclassified, the first-year deduction can approach \$1.5 million, worth more than \$550,000 in tax savings at a 37% rate.

BEST DEPLOYED WHEN

- In the year a qualifying asset is placed in service
- During an unusually high-income year
- Alongside a C-corp management company structure

TRACK ONE • 10

1031 Exchange

You built the equity over twenty years. Do not hand a third of it to the IRS on the way out.

Section 1031 defers capital gains tax on the sale of investment or business real estate when the proceeds go into a like-kind replacement property within 45 days to identify and 180 days to close. The gain is not erased, it is deferred into the new property's basis, but if that property is held until death, the basis steps up and the deferred gain disappears. On \$2 million of embedded gain, a 1031 exchange can keep \$400,000 to \$500,000 working in the replacement property instead of going to tax. Delaware Statutory Trusts are available for owners who want to exit active management without giving up the deferral.

BEST DEPLOYED WHEN

- Before selling appreciated investment real estate
- When moving from active to passive real estate ownership
- As part of a long-term estate plan



TRACK ONE • 11

Real Estate Professional Status

Rental losses are usually locked in a box. This unlocks it.

Rental real estate losses can normally only offset passive income, not wages or business income. An owner, or a spouse, who logs more than 750 hours a year in real estate, and more time there than in any other work, can qualify as a real estate professional and treat those losses as active, deductible against any income. Combined with a cost segregation study on a newly acquired rental, this can generate six-figure losses that offset a couple's ordinary income in the year of purchase. The IRS reviews these claims closely, so the hours need real documentation.

BEST DEPLOYED WHEN

- When a spouse or partner can realistically qualify
- In the year of a real estate purchase paired with cost segregation
- When passive losses are piling up with nothing to offset

TRACK ONE • 12

Captive Insurance (§831(b))

You are paying premiums to someone else's insurance company. You could be paying them to your own.

A captive insurance company is a closely held insurer that covers real risks of its owner's operating business, cyber liability, key-person risk, and supply chain disruption among the exposures the commercial market prices poorly or not at all. Premiums paid to the captive are deductible, and under Section 831(b), the captive pays tax only on investment income, not on premiums received, up to \$2.8 million a year. This strategy needs genuine risk transfer, real actuarial support, and careful compliance. The IRS has pursued abusive captives aggressively, so this is not a do-it-yourself project.

BEST DEPLOYED WHEN

- When annual commercial insurance premiums exceed \$500,000
- For businesses carrying real, identifiable uninsured risk
- Only alongside qualified legal and actuarial counsel



PART TWO

Track Two — Offset Income Already Recognized

TRACK TWO · 01

Section 7702 Life Insurance Planning

Protection first. Everything else has to earn its place.

Section 7702 sets the tests that determine whether a contract qualifies as life insurance for tax purposes. For the right household or business, permanent coverage can be evaluated alongside estate liquidity, business continuity, and long-term cash value needs. Policy design, funding pace, cost, underwriting, and the modified endowment contract rules all matter, and this is never a one-size-fits-all decision. It belongs in the plan only after independent insurance and tax review, not as a shortcut around one.

BEST DEPLOYED WHEN

- When permanent life insurance protection is genuinely needed
- During estate or business-continuity planning
- Only after independent policy analysis

TRACK TWO · 02

Roth Conversion

Your pretax account is carrying a future tax bill. Some years are cheaper than others to pay it.

Converting pretax retirement assets to a Roth triggers tax today but eliminates all future tax on that balance and its growth, and removes it from future required distributions entirely. The value is in timing: a lower-income year from a business transition, a loss year, or the gap between retirement and Social Security is the moment to convert. Sizing the conversion to stay inside the right bracket, and pairing it with strategies that offset the income it creates, is where the real planning happens. Done well over several years, a conversion strategy can eliminate seven figures of future tax.

BEST DEPLOYED WHEN

- In a year when income is temporarily lower than usual
- During a business transition or gap year
- Before required distributions begin at age 73



TRACK TWO · 03

Cost Segregation

Same building, same deduction. You just stop waiting 39 years to take it.

Commercial real estate depreciates over 39 years under standard rules, which spreads the deduction thin. A cost segregation study reclassifies components of the building, fixtures, electrical systems, flooring, and landscaping among them, into 5-, 7-, and 15-year property. With 100% bonus depreciation available on those shorter-life assets, a \$1 million building purchase can generate more than \$300,000 in first-year deductions instead of roughly \$20,500 under standard depreciation, worth about \$108,000 in first-year savings at a 37% rate.

BEST DEPLOYED WHEN

- In the year of a real estate purchase
- During a high-income year
- Alongside bonus depreciation for maximum first-year effect

TRACK TWO · 04

Clean Energy Credits (§§48 & 48E)

The credit is only part of the deal. The economics and the paperwork have to hold up too.

Sections 48 and 48E provide investment credits for qualifying energy property, clean electricity facilities, and storage. What is available depends on the project, when construction began or the property entered service, and labor, domestic content, and energy community rules. For a taxpayer with meaningful federal tax liability, the opportunity may come through a direct investment or, in some cases, an acquired transferable credit. This starts with your actual tax capacity and the project's underlying economics, then moves to diligence with your CPA and tax counsel before any capital moves.

BEST DEPLOYED WHEN

- Before capital is committed to a project
- Ahead of an expected high-tax year
- With independent diligence and tax counsel involved



TRACK TWO · 05

Donor-Advised Fund

Give the same dollars. Take the deduction in the year it does the most good.

A donor-advised fund takes a contribution of cash or appreciated assets, gives the full charitable deduction in the year of the gift, and lets grants go out to chosen charities on your own timeline. Contributing appreciated securities avoids capital gains tax on the appreciation entirely, since the deduction is based on full market value. For a donor expecting lower income in future years, a DAF locks in the deduction now, at today's higher rate, and lets the giving happen later. Contribution limits run 60% of AGI for cash and 30% for appreciated assets.

BEST DEPLOYED WHEN

- In a high-income year
- Before year-end
- When the gift is funded with appreciated securities

TRACK TWO · 06

Charitable Remainder Trust

The IRS usually takes its cut at the closing table. Move the asset first and it does not.

A charitable remainder trust accepts highly appreciated assets, real estate, a business interest, or a concentrated stock position among them, sells them inside the trust without triggering capital gains tax, and pays the donor income for life or a fixed term. The remainder passes to charity, and the donor gets a current deduction for the present value of that future gift. The result is a sale without the immediate capital gains hit, a deduction now, and an income stream for years to come.

BEST DEPLOYED WHEN

- Before selling a highly appreciated asset
- When lifetime income is part of the goal
- Alongside a donor-advised fund for layered giving



TRACK TWO • 07

Qualified Opportunity Fund

Roll the gain into an opportunity zone. Hold it ten years. The appreciation stops being taxable.

Rolling a capital gain into a Qualified Opportunity Fund defers recognition of that gain, and gains on the QOF investment itself are excluded from income entirely if held for ten years. For an owner with \$2 million in gain from a business sale, a QOF investment can defer the immediate tax and potentially eliminate tax on everything the investment earns afterward. It fits best for sellers with a genuinely long horizon and comfort with an illiquid investment.

BEST DEPLOYED WHEN

- Shortly after a liquidity event
- When a ten-year holding period is realistic
- For sellers comfortable with illiquidity

TRACK TWO • 08

Concentrated Position Strategies

Selling the position is not the only way out. It is just the most expensive one.

A large, low-basis position from a business sale, vested stock, or an inheritance leaves a hard choice: keep the concentration or pay a large capital gains tax to diversify. There are other paths. A loan against the position raises cash without a sale. An equity collar hedges the downside while keeping some upside. A swap fund trades the position for a diversified partnership interest without an immediate tax event. Direct indexing allows loss harvesting at the individual stock level while keeping broad market exposure. Which one fits depends on timeline, tax picture, and how soon the cash is needed.

BEST DEPLOYED WHEN

- When a single low-basis position creates outsized risk
- Ahead of a forced liquidity event
- As part of a multi-year diversification plan



TRACK TWO • 09

ESOP

The buyer was already in the building.

An employee stock ownership plan lets an owner sell 30% to 100% of the business to a trust that holds the shares for employees. Under Section 1042, proceeds reinvested into qualifying domestic securities defer capital gains tax indefinitely, and those replacement securities get a stepped-up basis at death, which can eliminate the gain entirely. ESOPs tend to work best for businesses worth \$10 million or more with twenty to thirty long-term employees, and they carry a real side benefit: the alignment and retention they create can raise the value of the business before the sale even happens.

BEST DEPLOYED WHEN

- Three to five years ahead of a planned exit
- When the business has a stable, long-tenured workforce
- As part of a broader exit and estate plan

TRACK TWO • 10

Installment Sale

A \$3 million gain in one year is a tax emergency. Spread over five, it is a planning opportunity.

An installment sale spreads proceeds from a business or real estate sale over multiple years, recognizing gain only as payments come in. Spreading a \$3 million gain across five years can keep annual income under the capital gains rate threshold, the net investment income tax threshold, and the top ordinary bracket, which can lower the effective rate on the gain by 10 to 15 percentage points. It requires a buyer who can support deferred payments and an interest rate on the note that meets IRS minimums.

BEST DEPLOYED WHEN

- When the buyer can support payments over time
- In a high-gain year
- Coordinated with bracket management across the payment period



TRACK TWO • 11

§1202 Qualified Small Business Stock

Every other strategy on this list defers the gain. This one erases it.

Section 1202 lets founders and early investors in qualifying C corporations exclude gain from federal tax when they sell qualified small business stock. The One Big Beautiful Bill Act raised the per-issuer exclusion cap to \$15 million and the company's gross-asset ceiling to \$75 million for stock acquired after July 4, 2025, and it replaced the old five-year holding requirement with a graduated schedule: 50% exclusion at three years, 75% at four, and 100% at five or more. Stock acquired on or before that date still follows the older \$10 million cap, \$50 million asset ceiling, and five-year rule. Married couples who each hold shares separately can each claim their own exclusion. The planning window opens at formation, since QSBS status has to be locked in before the company outgrows the asset ceiling.

BEST DEPLOYED WHEN

- At company formation or an early funding round
- Before gross assets approach the ceiling
- Paired with a stacking strategy for married founders

TRACK TWO • 12

Oil & Gas Working Interests

One of the few investments where the tax code was written to encourage participation.

A working interest in an oil and gas project generates two kinds of deductions: intangible drilling costs, typically 65% to 80% of the investment and deductible in the year incurred, and tangible equipment costs, depreciated over seven years. Intangible drilling costs offset ordinary income directly, not just passive income, which makes them one of the few tools that reach W-2 or business income head-on. A \$500,000 investment can generate \$325,000 to \$400,000 in first-year deductions. The investment still needs genuine economic merit on its own, independent of the tax benefit.

BEST DEPLOYED WHEN

- In a high-income year
- When other offset strategies have already been used up
- As one piece of a coordinated offset plan



TRACK TWO • 13

Tax Loss Harvesting

The market handed you a loss. The question is whether you used it.

Tax loss harvesting sells a security at a loss to offset gains recognized elsewhere in the portfolio, then replaces the sold position with something similar, but not identical, to keep market exposure without tripping the wash-sale rule. At the individual stock level, through direct indexing or a separately managed account, opportunities show up throughout the year, not just in December. For an owner with \$500,000 in gains from a business sale or a concentrated position sale, an active harvesting program can offset a meaningful share of that gain from losses already sitting in the portfolio.

BEST DEPLOYED WHEN

- Throughout the year, especially in volatile markets
- In the year of a liquidity event
- Coordinated with other gain-recognition decisions

TRACK TWO • 14

Qualified Charitable Distribution

You were giving it away anyway. This way the IRS does not get a share first.

A Qualified Charitable Distribution lets an IRA owner age 70½ or older send up to \$105,000 a year directly from the IRA to a qualified charity without that amount ever showing up as taxable income. For a donor who takes the standard deduction and gets no benefit from itemizing, a QCD still helps, because it lowers AGI directly, which can reduce Medicare premiums and the taxable share of Social Security. For anyone subject to required minimum distributions, a QCD satisfies that requirement without adding a dollar of taxable income. The transfer has to go straight from the custodian to the charity.

BEST DEPLOYED WHEN

- At age 70½ or older
- When required minimum distributions apply
- For donors who take the standard deduction



NEXT STEP

Which of These Apply to You?

This list is not a prescription. Start with the decision, timing, and tax exposure in front of you, and a conversation will clarify which of these tools, if any, fit the facts of your situation.

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