Proactive Tax Planning Tactics

Understanding your Marginal Tax Brackets:
Not all of your income is taxed at the same rate. The U.S. tax system is progressive, meaning portions of your income are taxed in tiers, with higher rates applied only to the income above certain thresholds. Knowing your marginal tax bracket can help you make smart tax decisions such as when to harvest capital gains, contribute to retirement accounts, or accelerate deductions. These strategies can potentially lower your lifetime tax bill. **Want to see how tax planning can work for you?** Talk to a fee-only fiduciary advisor at Endowment Wealth Management for a complimentary tax analysis and learn how much you may be able to save through proactive planning.

Lowering Your Taxable Income:
One of the most effective ways to reduce your tax bill is by contributing to tax-deferred accounts. These contributions lower your adjusted gross income (AGI) in the year they're made, which may reduce your current tax liability. Some examples include:

- Traditional 401(k)
- Deductible IRA
- Health Savings Account (HSA)

These accounts are especially beneficial if you're in a high marginal tax bracket today and expect to be in a lower bracket in the future (e.g., retirement).

Taking Advantage of Low Marginal Tax Brackets:
If you're currently in a low tax bracket, you may want to pay taxes now in exchange for tax-free growth in the future. Some strategies include:

- **Roth IRA & Roth 401(k) Contributions:** You contribute after-tax dollars, and the money grows tax-free for life (as long as requirements are met).
- **Roth Conversions:** Converting pre-tax retirement assets (like a Traditional IRA) into a Roth IRA while in a low bracket can lock in a low tax rate and avoid higher taxes later.
- **Capital Gains Harvesting:** Realize long-term capital gains in low-income years, potentially at 0% federal tax if your income is low enough.

These strategies are ideal for younger investors, those between jobs, early retirees, or anyone with temporary dips in income.

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Tax-Loss Harvesting:
Tax-loss harvesting involved selling investments at a loss to offset capital gains and reduce your taxable income by up to $3,000 or ordinary income per year (if losses exceed gains). The proceeds are typically reinvested in similar, but not identical, investments to maintain your market exposure and avoid wash sale rules.

Embark, our digital & automated investment platform, offers free automatic tax-loss harvesting for clients.

Maximizing Tax Credits:

- **For Families:** Child Tax Credit & Child and Dependent Care Credit
- **For Education:** American Opportunity Tax Credit & Lifetime Learning Credit

To learn more about Endowment Wealth Management and our Fee-Only Fiduciary Advice:

Call: (920) 785-6010

Visit: www.EndowmentWM.com