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Investment Academy | Tax Considerations

Smart Tax Strategies: How to Keep More of What You Earn

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“The hardest thing in the world to understand is the income tax.”

— Albert Einstein

“Be thankful we’re not getting all the government we’re paying for.”

— Will Rogers

Introduction

If there’s one lesson every seasoned investor learns, it’s this: It’s not what you make, it’s what you keep that matters. Taxes can quietly erode your investment returns over time, but with thoughtful planning and a few well-chosen strategies, you can tilt the odds in your favor. Let’s walk through the most effective tax-saving moves, blending the latest data through 2024 with time-tested wisdom and a conversational, trusted advisor’s perspective.

Building Your Retirement Nest Egg: The Power of Tax-Advantaged Accounts

The foundation of tax-smart investing is maximizing contributions to retirement accounts. For 2025, you can contribute up to \$7,000 to a traditional or Roth IRA if you’re under 50, and \$8,000 if you’re 50 or older. Roth IRA eligibility phases out at a modified adjusted gross income (MAGI) of \$150,000 for singles and \$236,000 for married couples filing jointly. In your 401(k), the employee deferral limit is \$23,500, with an extra \$7,500 catch-up for those 50+, and a special catch-up of \$11,250 for ages 60–63. The total combined (employee plus employer) can reach \$70,000, or even \$81,250 with catch-ups¹.

Why do these accounts matter so much? Contributions to traditional IRAs and 401(k)s reduce your taxable income today, while Roth accounts offer tax-free growth and withdrawals in retirement. The earlier you start and

the more you contribute, the more you harness the power of compounding—without Uncle Sam taking a bite every year.

Municipal Bonds: Tax-Exempt Income for High Earners

For investors in higher tax brackets, municipal bonds (or “munis”) are a perennial favorite. The interest they pay is typically exempt from federal income tax, and often from state and local taxes as well. This tax advantage can make munis especially attractive when compared to taxable bonds, whose higher nominal yields are often whittled away by taxes. In 2025, as interest rates stabilize and demand for tax-free income rises, munis remain a smart option for those focused on wealth preservation and after-tax returns⁵.

Equities: Favorable Tax Treatment and Long-Term Growth

Stocks have historically outpaced bonds and cash over long periods, and they come with a tax bonus: long-term capital gains (on assets held more than a year) are taxed at lower rates than ordinary income. For 2025, the long-term capital gains rates are 0%, 15%, or 20%, depending on your income. For example, single filers pay 0% up to \$48,350 in taxable income, 15% up to \$533,400, and 20% above that⁶. Short-term gains (assets held a year or less) are taxed at ordinary income rates, which can be as high as 37% for top earners.

Qualified dividends—those paid by U.S. corporations and held for a minimum period—are also taxed at these favorable rates, while ordinary dividends are taxed as regular income. This means holding onto stocks for the long haul and focusing on qualified dividends can significantly boost your after-tax returns¹².

Tax-Efficient Trading: Less Is More

Frequent trading can be a silent killer of after-tax wealth. Every time you sell a stock for a short-term gain, you could lose up to 37% (plus state taxes) to the IRS. The solution? Trade less, hold longer, and be strategic. Tax-loss harvesting is a powerful tool: by selling losing investments, you can offset realized gains elsewhere in your portfolio, and even deduct up

to \$3,000 of net capital losses against ordinary income each year. Unused losses carry forward indefinitely¹³.

But beware the “wash sale” rule, which disallows a loss if you buy the same or a substantially identical security within 30 days before or after the sale. Instead, swap into a similar (but not identical) investment to maintain your market exposure while banking the tax benefit³.

Asset Location: Putting the Right Investments in the Right Accounts

Not all accounts are created equal when it comes to taxes. Tax-inefficient investments—think bonds, REITs, and actively managed funds with high turnover—belong in tax-advantaged accounts like IRAs and 401(k)s, where their income and gains can grow tax-deferred. Tax-efficient investments—like index funds, ETFs, and stocks you plan to hold for more than a year—are better suited for taxable accounts⁸.

This “asset location” strategy can meaningfully reduce your annual tax drag, leaving more money compounding for your future.

Rebalancing with Tax Savvy

Rebalancing is essential for managing risk, but doing so carelessly can trigger unnecessary taxes. Instead, use dividends and interest payments to buy underweighted assets, rebalance within tax-advantaged accounts first, and direct new contributions to lagging areas of your portfolio. When you must sell in taxable accounts, prioritize selling positions with the lowest gains or highest cost basis⁷.

Insurance and Estate Planning: Permanent Life Insurance and Beneficiary Strategies

Permanent life insurance policies, such as whole or universal life, offer tax-deferred growth on the cash value and tax-free death benefits to heirs. While not for everyone, these products can play a role in advanced tax and estate planning—especially for high-net-worth investors seeking to avoid estate taxes and probate costs. Proper beneficiary designations are crucial to ensure these benefits are realized.

Withdrawal Sequencing: The Art of Drawing Down

How you withdraw funds in retirement can make a world of difference. Start with required minimum distributions (RMDs) from traditional IRAs and 401(k)s once you hit age 73 (or 70½ if you reached that age before 2020), or face a 50% penalty on what you should have withdrawn. Next, tap taxable accounts, then traditional IRAs/401(k)s, and save Roth IRAs for last—since Roths grow tax-free and have no RMDs during your lifetime¹⁴.

By managing withdrawals thoughtfully, you can minimize taxes, preserve tax-advantaged growth, and leave more for your heirs.

Tax Diversification: Prepare for Future Changes

Tax laws and rates are subject to change. Diversifying across different account types—such as traditional (pre-tax), Roth (post-tax), and taxable accounts—provides flexibility to manage tax liabilities in retirement.

Strategic Tip: By having a mix of account types, investors can adapt withdrawal strategies to minimize taxes under varying future tax scenarios.

Behavioral Nuance: Tax-Smart Investing Is Also About Mindset

Many investors let emotions dictate their tax decisions—holding onto losers out of pride, or selling winners too soon to “lock in gains.” Behavioral finance teaches us that loss aversion and short-term thinking can lead to poor tax outcomes. Instead, approach tax planning as a disciplined, ongoing process. Automate where possible, review your portfolio regularly, and seek advice when needed⁹.

Smart Tax Strategies for Investors in 2025: A Comprehensive Guide

Navigating the tax landscape is crucial for investors aiming to maximize after-tax returns. This guide provides practical advice on tax-efficient investing, detailing contribution limits, tax rates, and strategies to consider in 2025.

2025 Contribution Limits for Retirement Accounts (IRA, Roth IRA, 401(k)):

- Under age 50: \$7,000
- Age 50 and over: \$8,000

Roth IRA Income Eligibility:

- Single filers: Full contribution if MAGI < \$150,000; phased out up to \$165,000
- Married filing jointly: Full contribution if MAGI < \$236,000; phased out up to \$246,000

401(k) Plans

Contribution Limits for 2025:

- Employee deferral: \$23,500
- Catch-up (age 50+): Additional \$7,500
- Special catch-up (ages 60–63): Up to \$11,250
- Total combined (employee + employer): \$70,000; up to \$81,250 with catch-up contributions

Strategic Tip: Maximizing contributions to tax-advantaged accounts can significantly reduce taxable income and enhance compound growth over time.

Investment Income

Capital Gains Tax Rates for 2025

Long-Term (assets held >1 year):

- 0% for single filers with taxable income up to \$48,350; married filing jointly up to \$96,700
- 15% for incomes above these thresholds
- 20% for single filers above \$533,400; married filing jointly above \$600,050
- **Short-Term (assets held ≤1 year):**
- Taxed at ordinary income rates, ranging from 10% to 37% based on income level

Dividend Tax Rates for 2025

Qualified Dividends:

- 0% for single filers with taxable income up to \$48,350; married filing jointly up to \$96,700
- 15% for incomes above these thresholds
- 20% for single filers above \$517,200; married filing jointly above \$583,750

Ordinary Dividends:

- Taxed at standard income tax rates (10%–37%)

Strategic Tip: Holding investments for over a year and focusing on qualified dividends can lead to significant tax savings.

By implementing these strategies and staying informed about tax laws, investors can enhance their after-tax returns and work towards their financial goals more effectively.

Navigating the tax landscape is crucial for investors aiming to maximize after-tax returns. This guide provides practical advice on tax-efficient investing, detailing contribution limits, tax rates, and strategies to consider in 2025.

Points to Remember

- Maximize tax-advantaged retirement contributions each year to reduce current taxes and boost long-term growth.
 - Favor long-term investing and qualified dividends for lower tax rates.
 - Use tax-loss harvesting and asset location to further reduce your tax bill.
 - Rebalance and withdraw funds with tax consequences in mind—small changes can add up to big savings over time.
 - Behavioral discipline and regular review are as important as technical strategies.
 - Consult a tax advisor for personalized guidance, especially as laws and rates change.
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By weaving these strategies into your investment plan, you're not just playing defense against the taxman—you're actively building a more resilient, efficient, and ultimately wealthier financial future.

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