Top 10 Most Favorable Tax Strategies for Accelerating Wealth

Stewart Wealth Management

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SWM Goals

Our three person advisory team has 60 years combined experience in the financial markets. We have specialized knowledge in wealth building strategies involving stocks, bonds, and real estate.

- Act as a fiduciary & guardian of your wealth 100% of the time
- Invest in the same strategies and solutions we advise our clients
- Minimize taxation for clients at all costs
- Charge fees 20% less than avg financial advisory firms
- Build an asset allocation model for each client focusing on durability and predictability
- Set net worth goals for clients to achieve financial independence
- Provide a timeline and financial plan for Financial independence, which is when your passive monthly income from investments exceeds your monthly spending
- Practice what we preach by saving and investing with full transparency

Depreciation in real estate investments= tax deferred income

Directly Investing in Real Estate provides rental income with depreciation pass through- A loss to offset rental income on investment real estate creates a stream of income without taxation.

Multi-family apartments and single family homes usually have depreciation loss for 27.5 years. Some CPAs may take accelerated depreciation to offset taxable income earlier. High income earners or wealthy investors could have 3 million in real estate rentals earning 15,000 per month and having the tax deferred until the property is sold.

Long Term Investing in ETF Portfolios

An ETF (exchange traded fund) buys, sells, trades, and rebalances stocks within an index without capital gains being realized. The exchange traded fund structure is a remarkable way to keep a momentum based strategy without having to give annual capital gains taxes to the IRS.

Primary example is the S&P 500 or QQQ/Nasdaq 100 index . Both index funds have never paid cap gains tax because the algorithm is taxed as a trust with “exchanges” to mirror an index. Mutual funds and hedge funds are taxed as capital gain trades for each trade executed. Market cap or momentum based ETFs adds to winners and sells those going down in market cap or experiencing price erosion. This lets investors keep more over time. In 1999, QQQ’s top holdings were Microsoft, Qualcomm, Yahoo, Cisco, Intel, Dell, Amgen, Oracle ...Fast forward to 2020- Apple, Amazon, Microsoft, Google, Facebook, Tesla. Letting the index or algo work as opposed to trading individual stocks is more tax efficient and has proven to work well over the long run. The SP 500 index is a more diversified way to achieve the same goal.

1031 Exchange

The 1031 exchange- trade rental properties into like rental properties to defer capital gains tax. You can also trade into a DST (Delaware Statutory Trust which is a turnkey product that owns various properties that are managed for you) an example is a purchase for 375K in 1997, sell for 1.75M in 2020 roll into multiple properties without capital gains tax. Can you imagine trading into different stocks and mutual funds without paying capital gains?

Opportunity Zone Real Estate Funds to mitigate Capital Gains tax

Opportunity Zone Funds- Opportunity zone funds invest in real estate, for example (multi family apartments). Opportunity Zones are specific geographic areas designated as economically distressed. Tax incentives for investments in opportunity zones include delayed and potentially reduced taxes or elimination of capital gains.

Primary residence capital gain exemption

Capital gains exemption for a single person of 250K or 500K for a couple to sell primary residence without tax. Those who have connections and skill with value add can become move up buyers more often if needed.

Refinance & withdraw some equity in properties after considerable growth

Real estate- Refinance and take cash from equity without taxation on primary home, rentals, or LLC structure . The low rate refi boom has injected capital into the economy.

Step up basis for spouses and beneficiaries of trust accounts

Step up cost basis on all assets at date of death for the beneficiaries or surviving spouses- avoids capital gains when they sell. Surviving spouse has broker/advisor update all investments with market value at date of death.

401ks, IRAs, and other Qualified Plans

401k and IRA contributions- pay yourself first and get a tax deduction. Lets $ compound without tax until you withdraw during retirement. 401k plans are 19,500 per year or 26k contributions for those over 50. There are also many retirement plans for small business owners to defer even more money. More complex plans are set up through third party administrators. Profit Sharing, Cash balance, or solok are examples. Money grows tax deferred in these plans regardless of the type of investment

Qualified Dividends in non qualified accounts

Dividend income capped at 20% tax for high income earners, 15% for most under 450K in jt income. Create a dividend portfolio that allows lower taxable passive income. Schwab and Vanguard have dividend ETFs that pay about 3.5% today.

Mortgage Interest Deduction

Mortgage Interest deduction on primary residence. 750k mortgage for new home buyers. A 3% interest rate on a 750K loan provides a 22,500 tax deduction.

Honorable Mention Strategies

- Borrow cash value of a permanent life insurance policy with tax or need to ever pay it back- A very expensive way , high fee way to build wealth, but definitely a loophole for a small amount of one's nest egg.
- Municipal bonds- lending money to state and local government and avoiding federal and state income tax on interest earned. This was great in the 90s when interest rates were high. It's a good idea in theory but a terrible environment right now. Good time to borrow, not lend.
- Charitable remainder trust- A tax efficient way to move highly appreciated assets into a cash flow stream while you are living as long as the balance goes to charity when the family passes.
- Reverse Mortgage- creating a tax free stream of income on primary residence during retirement. This is for those who do not want to pass down a home to heirs, but rather live life and spend to the fullest when they are alive.