



Five Ways to Make Tax Planning a Year-Round Practice Offering

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Tax planning is often something associated with filing season. But in my experience, the most significant tax events, particularly for high-net-worth families, occur well before April.

The most impactful tax events can be overlooked when financial advisors and planners do not give strategic tax planning the same consistent, year-round focus as other areas of their practices, such as estate planning, investment strategy, family governance, and liquidity management.

By helping high-net-worth individuals and families retain more of their wealth after taxes, advisors can strengthen their value proposition not only for current clients but also for their children and grandchildren. Over time, proactive tax planning can improve outcomes and support multigenerational client retention (and referrals).

Five Year-Round Tax Planning Strategies

Below are five year-round tax planning strategies that advisors can incorporate into their practices, and harness for addressing tax-smart opportunities with clients:

Aligning Liquidity and Tax Liability. When private investments generate capital gains prior to liquidity events, trusts retain income instead of distributing it, and pass-through entities allocate income without distributions, clients are at risk of not being able to pay taxes and other expenses on time. Advisors can help clients avoid this liquidity stress by modeling strategies for ensuring taxable income has corresponding cash flow.

Continuously Monitoring and Reviewing Income Complexity. Tax planning based on the previous year's income profile can cause headaches. High-net-worth individuals and families often obtain income from multiple and varying sources, such as trusts, concentrated equity holdings, multi-state investments, private equity, and carried interest. Even minor changes in the makeup of these income sources over the course of a tax year, such as going from passive to non-passive or domestic to foreign domiciles, can have a material impact on net investment income's tax exposure, and federal and state filing requirements. Effective tax management requires advisors to monitor these adjustments and bring them to clients' attention before filing season.

Evaluating Trusts Collectively Instead of Separately. While high-net-worth clients frequently depend on multiple trusts and entities to protect their assets and ensure their estate planning goals are met. Although they are very effective, every trust and entity adds its own set of complexities to a client's tax planning. For example, non-grantor trusts can be taxed in the highest federal income tax bracket of 37%, even if holders have taxable income of at least \$15,650, a relatively low threshold. Most taxpayers don't enter that 37% bracket until their taxable income surpasses \$626,351. So, advisors need to help clients with non-grantor trusts carefully manage decisions related to income allocation, distributions, and grantor status to ensure they don't negatively affect the tax burden across their families' wealth.

This is why all trusts and structured entities need to be managed and monitored collectively as part of an overall tax planning strategy, rather than individually.

Not Forgetting About State Taxes and the Expense of Federal. Understandably, federal tax filings often receive significant attention, but state taxes and capital gains can be equally important, especially for high-net-worth families, who possess investment holdings, trusts, and homes in multiple states. Moving to a different state, altering a trust situs (the state-domiciled location of a trust), or expanding multi-state investments can all make an impact on total state tax exposure.

Advisors can work with clients to undertake portfolio rebalancing, private fund exits, and concentrated stock sales which are timed and sourced to maximize after-tax outcomes at the state level.

Aligning Timing with Strategy for Charitable Giving. Philanthropy can be an especially powerful tax planning tool for high-net-worth clients and families, but timing is critical. For example, charitable remainder trusts, donor-advised funds, and gifts of appreciated securities can optimize after-tax outcomes for clients in years when they earn high income. Advisors can work with clients to deploy these charitable giving solutions during the time period when they would best benefit their families from a tax perspective.

This awareness of timing can enable advisors to identify the ideal charitable giving structures and solutions for helping families offset concentrated gains, reduce embedded tax exposure in appreciated assets, and offset tax exposure in unusually high-income years. Advisors can also demonstrate value by helping clients create long-term capital to fund philanthropic legacies.

Key Takeaways

The most meaningful tax planning conversations are the ones that begin long before year-end and filing season, when there is plenty of time to act. When financial advisors make tax planning an integral part of their holistic, year-long approach to wealth management, and work with clients' accountants and attorneys, they can increase, and even optimize, their clients' after-tax wealth.

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