



**THE HIGH-INCOME PLAYBOOK**

# **10 LEGAL TAX STRATEGIES FOR W-2 EARNERS**

**Advanced Tax Planning for Executives and Professionals**

# **EARNING OVER \$500,000**

This guide provides general educational information and does not constitute tax, legal, or financial advice. Consult with qualified professionals before implementing any strategy.

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# Executive Summary

High-income W-2 earners face unique tax challenges. With ordinary income taxed at rates up to 37% federal (plus state and payroll taxes), your effective rate can exceed 50% in high-tax states.

This whitepaper presents 10 IRS-compliant strategies that can reduce your tax burden by \$50,000 to \$200,000+ annually, depending on your income level and circumstances.

## Key Takeaways:

- Pre-tax strategies (401(k), deferred comp, HSA) can defer \$70,000+ annually
- Strategic entity structures can convert W-2 income into qualified business income
- Real estate investments offer powerful depreciation and passive loss strategies
- All strategies are supported by specific IRC sections and Treasury regulations

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# Strategy 1: Maximize Retirement Deferrals

The foundation of high-income tax planning is maximizing pre-tax retirement contributions. Most high earners underutilize available deferral limits.

## Legal Foundation

IRC § 402(g) and IRC § 415 establish contribution limits for qualified retirement plans.

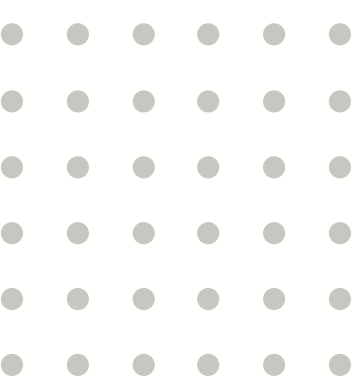
## Who Qualifies

- W-2 employees with access to employer-sponsored 401(k) or 403(b) plans
- Age 50+ employees eligible for catch-up contributions
- Employees with employer match or profit-sharing contributions
- Self-employed individuals with solo 401(k) plans

### 2025 Tax Benefit Example

Executive earning \$600,000 maximizes 401(k) deferral:

- Employee contribution: \$23,500
- Catch-up (age 50+): \$7,500
- Employer match (5%): \$30,000
- Total deferral: \$61,000
- Tax savings at 37%: \$22,570 federal + state savings



## Implementation Steps

1. Maximize employee deferrals to \$23,500 (or \$31,000 if age 50+)
2. Coordinate with employer to maximize profit-sharing contributions up to \$69,000 total limit
3. Consider after-tax 401(k) contributions if available (mega backdoor Roth)
4. Document contribution elections before year-end

# Strategy 2: Deferred Compensation Agreements

Non-qualified deferred compensation (NQDC) plans allow high earners to defer substantial income beyond 401(k) limits. This is particularly valuable for bonuses and equity compensation.

## Legal Foundation

IRC § 409A governs non-qualified deferred compensation timing and distribution rules. Strict compliance required to avoid 20% penalty and immediate taxation.

## Who Qualifies

- Executives at companies offering NQDC plans (typically Fortune 1000 companies)
- Key employees receiving significant annual bonuses
- Highly compensated individuals in peak earning years planning future retirement

### **Deferral Strategy Example**

Vice President earning \$800,000 salary + \$400,000 bonus:

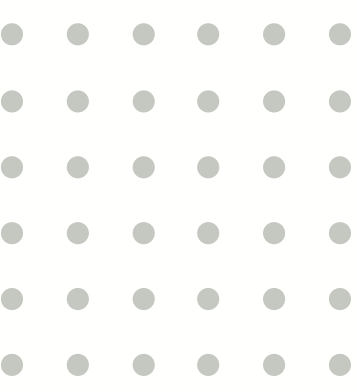
- Defers \$300,000 of bonus to age 62
- Current tax savings: \$111,000 (37% bracket)
- Future distribution taxed at potentially lower retirement rate
- Investment growth compounds tax-deferred

### **Critical Compliance Requirements**

- Elections must be made before calendar year in which compensation is earned
- Distribution timing must be specified at election (cannot be changed)
- Violating 409A results in 20% penalty tax plus interest on entire deferral

## **Strategy 3: Health Savings Account Triple Tax Advantage**

HSAs offer a unique triple tax benefit: tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified medical expenses. They function as stealth retirement accounts.



## Who Qualifies

- Individuals enrolled in high-deductible health plans (HDHP)
- Not enrolled in Medicare or claimed as dependent on another's return
- 2025 HDHP minimum deductible: \$1,650 individual / \$3,300 family

### **HSA Wealth Building Strategy**

Executive contributes maximum HSA for 30 years:

- Annual family contribution: \$8,550 (includes \$1,000 catch-up)
- Pay medical expenses out-of-pocket, save receipts
- Let HSA grow tax-free for decades
- At age 65: \$500,000+ tax-free wealth
- Can reimburse saved medical receipts tax-free anytime

### **Advanced Strategy**

Pay all current medical expenses out-of-pocket and invest full HSA balance aggressively. Save all medical receipts (no expiration date). At retirement, reimburse yourself tax-free for decades of saved medical expenses.

# Strategy 4: Qualified Small Business Stock (QSBS)

QSBS allows complete exclusion of capital gains on startup equity—potentially saving millions in taxes. This is the most powerful wealth-building provision for executives at qualifying companies.

## Legal Foundation

IRC § 1202 provides up to 100% exclusion on gains from qualified small business stock held 5+ years. Maximum exclusion: greater of \$10 million or 10x cost basis.

## Who Qualifies

- Stock acquired at original issuance (not secondary market)
- Company is C-corporation (not LLC or S-corp) with gross assets under \$50M at issuance
- Company engaged in qualified active business (not finance, hospitality, or professional services)
- Stock held for at least 5 years before sale

### QSBS Million-Dollar Savings

Tech executive granted \$100,000 in stock options:

- Exercise early at low valuation (\$100K cost basis)
- Company acquired 6 years later for \$10.1M
- Gain: \$10M (maximum QSBS exclusion)
- Without QSBS: \$2.38M tax (23.8% capital gains)
- With QSBS: \$0 federal tax
- Tax savings: \$2,380,000

## **Implementation Steps**

Exercise options or acquire stock as early as possible to start 5-year holding period. Ensure company qualifies before acquisition. QSBS status is determined at stock issuance and cannot be fixed retroactively.

# **Strategy 5: Real Estate Professional Status**

Real estate professional status unlocks the ability to deduct unlimited rental real estate losses against W-2 income. This is exceptionally valuable for high earners with significant real estate holdings.

## **Legal Foundation**

IRC § 469(c)(7) creates exception to passive activity loss limitations for qualifying real estate professionals.

## **Qualification Requirements**

- Spend more than 750 hours in real estate trades or businesses during the year
- Real estate activities constitute more than 50% of personal services performed
- Materially participate in each rental activity (100+ hours per property)
- Maintain contemporaneous time logs documenting all real estate activities

### **W-2 Earner Strategy Example**

Dual-income household—one spouse qualifies:

- Spouse A: \$600K W-2 income (primary earner)
- Spouse B: Manages 8 rental properties full-time
- Properties generate \$150K depreciation/losses
- Spouse B qualifies as real estate professional
- Losses offset Spouse A's W-2 income
- Tax savings: \$55,500 (37% bracket)

### **Documentation Requirements**

- Daily time logs with specific activities (showings, maintenance, tenant calls, bookkeeping)
- Records proving material participation in each property separately
- Comparison of real estate hours to all other work activities

## **Strategy 6: Backdoor Roth Conversions**

High earners are prohibited from direct Roth IRA contributions due to income limits. The backdoor Roth strategy provides legal access to tax-free Roth growth.

### **Legal Foundation**

IRC § 408A permits conversions from traditional to Roth IRAs with no income limitations. Treasury guidance explicitly approves this strategy.

## Implementation Steps

- Contribute \$7,000 to traditional IRA (non-deductible contribution)
- Immediately convert traditional IRA to Roth IRA (minimal tax due if done quickly)
- File Form 8606 documenting non-deductible contribution and conversion
- Avoid pro-rata rule by having no existing pre-tax IRA balances

### **Pro-Rata Rule Warning**

Executive with \$300K in existing rollover IRA:

- Contributes \$7K to new traditional IRA
- Immediately converts \$7K to Roth
- Pro-rata calculation:  $\$300K \div \$307K = 97.7\%$  taxable
- Unexpected tax on conversion: \$2,500+
- Solution: Roll existing IRA into 401(k) before backdoor Roth

## **Mega Backdoor Roth**

If your 401(k) plan allows after-tax contributions and in-service distributions, you can contribute up to \$46,000 additional to Roth through mega backdoor strategy—significantly more powerful than standard backdoor Roth.

# Strategy 7: Donor-Advised Funds

Donor-advised funds (DAFs) allow bunching of charitable deductions into high-income years while distributing to charities over time. Particularly valuable when AGI exceeds standard deduction thresholds.

## Legal Foundation

IRC § 170 governs charitable contribution deductions. Cash contributions limited to 60% of AGI, appreciated securities to 30% of AGI.

## Strategic Implementation

- Front-load 3-5 years of charitable giving into one high-income year
- Donate appreciated stock instead of cash (avoid capital gains + get full FMV deduction)
- Distribute to charities gradually over subsequent years
- Invest DAF balance for tax-free growth while deciding on final recipients

### Bunching Strategy Example

Executive in \$700K income year:

- Standard deduction: \$29,200 (married)
- Regular annual giving: \$20,000
- Strategy: Contribute \$100K to DAF (5 years bunched)
- Total deductions exceed standard: itemize
- Tax savings: \$37,000 (vs. spreading donations)
- Distribute \$20K annually from DAF to charities

## Best Years to Implement

- Years with large bonuses or equity compensation
- Before retirement when income drops to lower bracket
- Year of business sale or large capital gain

# Strategy 8: Business Entity Structuring

High-income W-2 earners with side businesses can leverage entity structures to access the 20% Qualified Business Income (QBI) deduction and optimize compensation strategies.

## Legal Foundation

IRC § 199A provides 20% deduction on qualified business income for pass-through entities. Phases out for specified service trades above \$191,950 (single) / \$383,900 (married).

## Optimal Structure Selection

Entity Type	Best For	Tax Benefit
S-Corporation	\$100K+ net income	Payroll tax savings + QBI deduction
LLC (partnership)	Multiple owners, flexible allocation	QBI deduction, flexible distributions
Solo 401(k)	Self-employment income	\$69K annual deferral capacity

### **S-Corp Strategy Example**

Consultant with \$300K side business:

- As sole proprietor: Pay 15.3% self-employment tax on full \$300K
- As S-corp: Pay \$120K reasonable salary (subject to payroll tax)
- Remaining \$180K: Distributions (no payroll tax)
- Payroll tax savings: \$27,540
- QBI deduction on \$180K: \$36,000 additional deduction
- Total tax savings: \$40,860

## **Strategy 9: Cost Segregation Studies**

Cost segregation accelerates depreciation deductions on commercial or rental properties by reclassifying building components into shorter-life assets.

### **Legal Foundation**

IRC § 168 and Rev. Proc. 2011-14 establish cost segregation methodology and safe harbors.

### **How It Works**

Engineering study identifies property components that qualify for 5-, 7-, or 15-year depreciation instead of 27.5 or 39-year building depreciation. Combined with bonus depreciation, creates immediate tax deductions.

### **Commercial Property Example**

Purchase \$2M commercial building:

- Traditional depreciation: \$51,280/year (39 years)
- Cost segregation study: \$800K reclassified
- Year 1 deduction with bonus depreciation: \$800K
- Tax savings at 37%: \$296,000 (year 1)
- Study cost: \$8,000-\$12,000
- ROI: 2,400%+

### **Best Candidates**

- Properties purchased or significantly renovated in last 3 years
- Buildings with specialized systems (restaurants, medical offices, manufacturing)
- Properties with cost basis over \$500,000

# **Strategy 10: Opportunity Zone Investments**

Opportunity Zones allow deferral and partial exclusion of capital gains reinvested in designated low-income communities. Held 10+ years, all new appreciation is completely tax-free.

### **Legal Foundation**

IRC § 1400Z-2 creates tax incentives for long-term investments in Opportunity Zones through Qualified Opportunity Funds.

## Tax Benefits Timeline

- Year 0: Defer capital gains by investing in Qualified Opportunity Fund within 180 days
- Year 5: 10% of original gain excluded from tax
- Year 7: Additional 5% excluded (total 15% exclusion)
- Year 10+: All new appreciation completely tax-free when sold

### Long-Term Wealth Strategy

Executive sells stock with \$1M capital gain:

- Invests full \$1M in Opportunity Zone fund
- Defers \$238K tax bill until 2026 (or earlier sale)
- After 10 years: Investment grows to \$2.5M
- Original \$1M gain: 15% excluded = \$35,700 savings
- New \$1.5M appreciation: 100% tax-free = \$357,000 savings
- Total tax savings: \$392,700

### Critical Requirements

- Must invest capital gains within 180 days of sale
- Fund must invest in qualified Opportunity Zone property within 6 months
- At least 90% of fund assets must be in Opportunity Zone property

# Implementation Roadmap

Tax strategy requires careful sequencing and compliance. Follow this roadmap to implement strategies legally and effectively.

## **Q4 Prior Year (October–December)**

- Make deferred compensation elections for next year's income (IRC § 409A deadline)
- Establish side business entities if needed for next year
- Order cost segregation studies on recently acquired properties

## **January–March**

- Max out prior-year retirement contributions (IRA/HSA deadline: Tax Day)
- Execute backdoor Roth conversions for prior year
- Begin tracking real estate professional hours if pursuing that strategy

## **Throughout Year**

- Maximize 401(k) deferrals to reach annual limit (\$23,500 + catch-up)
- Contribute to HSA each pay period
- Track basis in QSBS holdings (5-year holding period requirement)
- Maintain detailed time logs for real estate professional qualification

## **November–December**

- Harvest tax losses to offset gains
- Fund donor-advised funds if bunching charitable deductions
- Make final estimated tax payments
- Review S-corp reasonable compensation for adequacy

# Critical Documentation Requirements

Strategy	Required Documentation
Deferred Comp	Written election before calendar year, distribution timing documented
Real Estate Pro	Daily time logs, material participation records per property
QSBS	Stock certificates, 1202 qualification memo, 5-year holding proof
S-Corp	Reasonable compensation analysis, payroll records, distributions documented
Cost Seg	Engineering study from qualified professional, Form 3115 filed

## IRS Audit Defense

Every strategy in this guide requires meticulous documentation. The IRS increasingly scrutinizes high-income returns. Maintain organized records for 7+ years and work with a qualified tax advisor for implementation.

# Work With AE Tax Advisors

These strategies can save high-income earners \$50,000 to \$200,000+ annually in taxes. But implementation requires precision, timing, and ongoing compliance.

## Comprehensive Tax Planning Services

AE Tax Advisors specializes in advanced tax strategies for executives, professionals, and business owners earning \$500,000+. Our services include:

- Multi-year tax projection modeling and scenario analysis
- Entity structure design and optimization
- Real estate tax strategy and cost segregation coordination
- Equity compensation and deferred comp planning
- Exit planning and M&A tax strategy
- IRS examination support and controversy resolution

### Schedule Your Private Consultation

Book a confidential consultation to analyze your specific situation and quantify your potential tax savings.

Visit: [www.aetaxadvisors.com/contact](http://www.aetaxadvisors.com/contact)

Email: [contact@aetaxadvisors.com](mailto:contact@aetaxadvisors.com)

Initial consultations include personalized tax projection analysis.

# About AE Tax Advisors

AE Tax Advisors is a specialized tax planning firm serving high-net-worth individuals and business owners. We focus exclusively on proactive tax strategy—not compliance. Our clients include Fortune 500 executives, entrepreneurs, real estate investors, and professionals in high-tax states.

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