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After-Tax Advisor

Build Better Tax Outcomes in the Second Half of 2023

By: Holly Swan | May 23, 2023

Paying taxes doesn't have to be all about infractions and penalties. Reveal the tax code for what it is, a set of rules designed to encourage some behaviors and discourage others. With the right frame of mind and an understanding of the tax codes, you can help clients improve year-end tax outcomes in the second half of 2023. Here are a few questions to ask your clients.

"Did you know that tax losses can be saved up and used to offset capital gains?"

The IRS can help turn client tax losses into wins by allowing them to offset capital gains now or in the future. By shielding some gains from taxation, tax losses can reduce the amount of tax an investor pays and increase the amount remaining. When framed and used properly, tax-loss harvesting can help turn tax losses into client wins.

"Do you receive incentive compensation? If so, do you understand how it is taxed?"

Since there are several types of incentive compensation—each with varying rules for vesting, purchasing and selling—clients with incentive compensation packages have unique planning needs. Remind them that not all shares are created equally and there are different tax rules for each type of incentive compensation:

1. **Restricted Stock Units (RSUs)**: Think of RSUs as cash compensation paid in the form of equity. It is taxed as ordinary income at the time of vesting and can be sold immediately upon vesting in order to diversify.
2. **Non-qualified stock options (NQSOs)**: NQSOs allow the holder to purchase shares at a reduced price. Ordinary income tax on the full bargain element is triggered upon exercise, which has the effect of shrinking the discount received on the stock. While there is no tax benefit to holding shares acquired through NQSOs, they do allow the holder to control the timing of the taxable event.
3. **Incentive Stock Options (ISOs)** : Shares acquired through the exercise of incentive stock options (ISOs) can be attractive in taxable accounts because, in a qualifying disposition, the entire difference between market value and discounted purchase price is taxed as long-term capital gains. However, beware of the possible Alternative Minimum Tax (AMT) consequences of holding these past the year of exercise.

"Are you charitably inclined? How much do you give to charity each year? In what form?"

There are some win-win opportunities for charitably-inclined clients and their charities of choice. While there are many giving strategies, let's focus on two simple ways you can help philanthropic clients improve their tax outcomes.

1. **Donating appreciated stock in lieu of cash.** When taxpayers give publicly traded securities to a charity, the taxpayer and the charity both win because neither will owe capital gains tax when the security is sold.
2. **"Bunching" multiple years' worth of giving into a single year.** If the amount exceeds the standard deduction, they can recover a tax deduction. This is a good option for clients who are not currently itemizing, thereby losing out on the tax benefit of charitable giving.

Bottom line: Uncle Sam can be a coach, not just a referee. Help your clients understand how IRS rules can be guideposts rather than penalties for turning losses into wins.

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