



Applying tax-saving strategies for high-income earners could help you owe less to the IRS, but it's important to keep in mind that the U.S. Tax Code is always changing.

How to Reduce Taxable Income for High Earners

High earners face a unique set of tax challenges: The higher the income, the larger the tax bill is likely to be. So, how can high income earners reduce their taxable income? We believe high-income earners can lower their taxable income and keep more of what they earn through careful high-income tax planning and strategic investments.

What Are the Federal Income Tax Brackets?

For single filers, the IRS considers an adjusted gross income (AGI) of \$200,000 or more as high income. **Federal income tax brackets** for high-income earners for the 2026 tax year are as follows:

- 37% for individual single taxpayers with incomes greater than \$640,600 (\$768,700 for married couples filing jointly)
- 35% for incomes over \$256,225 (\$512,450 for married couples filing jointly)
- 32% for incomes over \$201,775 (\$403,550 for married couples filing jointly)

If your individual adjusted gross income as a single filer is \$200,000 or more, it may be beneficial to consider some, if not all the strategies below.

How to Reduce Taxable Income: Five Strategies

There are a variety of **tax strategies for high-income earners** to reduce taxable income. They include:

- Funding tax-advantaged accounts
- Making a Roth conversion
- Contributing to a 529 plan for potential state tax benefits
- Making tax-deductible donations to charity
- Reviewing and adjusting asset allocation

Funding Tax-Advantaged Accounts

One effective way to reduce taxable income is by contributing earnings to tax-advantaged accounts. These accounts can offer a variety of tax benefits, including deductible contributions, tax-deferred growth, and in some cases, tax-free withdrawals, making them powerful tools for wealth accumulation.

With strategic high-income tax planning, tax-advantaged accounts can be used to reduce your tax burden while maximizing savings for key goals like retirement, education, and health care expenses.

By opening and contributing to one or more of the following types of tax-advantaged accounts, you could substantially lower your taxable income:

- 401(k) or a similar workplace retirement savings plan
- Traditional or SEP IRA
- Health savings account (HSA) and flexible spending account (FSA)

If you're 50 or older, you can make catch-up contributions to both workplace retirement plans and IRAs, though there are limits to the amount you can contribute to a traditional IRA. At age 55, you can also make catch-up contributions to your HSA, giving you additional opportunities to boost savings and reduce taxable income.

Roth Conversion

If you have substantial retirement savings in a traditional IRA or 401(k), converting those funds to a Roth IRA can be a powerful tax strategy that may significantly reduce future taxes. With a Roth conversion, you're essentially paying taxes now in exchange for tax-free growth and withdrawals later. An initial Roth conversion

could incur a hefty tax bill, but it's often a long-term strategic move. Over time, the tax-free growth potential of a Roth IRA can outweigh the upfront cost, especially for high-income earners.

Additionally, Roth IRAs do not have required minimum distributions which offers flexibility in retirement, allowing you to withdraw contributions tax-free at any age or income level. This is particularly beneficial for high earners who anticipate belonging to a higher tax bracket in the future.

529 Plan Tax Deduction

If you're a high-income earner with college-bound children, you may find substantial benefits through a 529 plan tax deduction. Designed to help you fund higher education, this specialized savings plan offers potential tax deductions or credits for contributions, reducing your taxable income while providing tax-deferred growth. When you use the funds for qualified education expenses such as tuition and fees, withdrawals are completely tax-free. Note that these benefits vary by state.

Charity Donation Tax Deduction

Another effective tool for high-income tax planning is **making charitable donations**. By donating to qualified charities that are important to you, you can reduce your taxable income while also making a difference in the world. Be mindful of IRS limits on charitable contributions, which are capped at 60% of your adjusted gross income (AGI) for cash donations to public charities and operating foundations. For other qualified organizations, the cap is generally 50% of AGI.

You can also donate appreciated assets such as stocks or real estate to help reduce or avoid capital gains taxes and potentially deduct the full fair market value of the asset. Deductions for contributions of appreciated securities are generally capped at 30% of your adjusted gross income. Be sure to seek guidance from a tax professional or wealth advisor to ensure compliance with IRS regulations.

Review and Adjust Your Asset Allocation & Consider Alternative Investments with a Wealth Advisor

You can strategically use asset allocation and alternative investments to help lower your taxable income. With the help of your wealth advisor, you can review and adjust your asset allocation to position your investments in the most tax-efficient way.



For example, tax-advantaged accounts such as IRAs and 401(k)s can shield high-growth, high-turnover assets from immediate taxation.

Alternative investments like real estate can potentially provide depreciation deductions that reduce taxable income, while private equity and venture capital funds may also offer tax advantages through carried interest, allowing you to pay lower capital gains taxes on your profits. Your wealth advisor and tax professional can help you navigate the tax implications of alternative investments and ensure compliance with IRS regulations.

Review and Adjust Your Asset Allocation & Consider Alternative Investments with a Wealth Advisor

Applying tax-saving strategies for high-income earners could help you owe less to the IRS, but it's important to keep in mind that the U.S. Tax Code is always changing, so a tax-saving strategy that works one year might not work another. Thus, it's critical to regularly review your financial situation with a trusted fiduciary who can help you avoid missed opportunities for savings.

Ready to get started with high-income tax planning? [Contact a KAR advisor](#) today.

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