Dorchester Advisors
Money worked harder

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Things You Control

Preserving wealth with tax planning

During their earning years, most investors strive to minimize taxes each year. Retirement often disrupts that mind-set. For many affluent retirees and accredited investors, the years surrounding retirement may create a temporary period of lower taxable income. This can open the door to valuable tax-planning opportunities.

The objective of sophisticated tax planning in retirement is not necessarily to pay the least tax this year. Rather, it is to minimize taxes over a lifetime. Here are some ideas to evaluate:

Tax Gain Harvesting

Most investors know about tax-loss harvesting. Tax-gain harvesting is the lesser-known counterpart.

This strategy involves intentionally realizing gains on appreciated investments while you are in a lower capital gains tax bracket. Doing so increases the cost basis of those investments, potentially reducing taxes when they are sold later.

In essence, you choose to pay some tax today at a lower rate to avoid paying more tax on the same gains in the future. Unlike tax-loss harvesting, gain harvesting does not trigger wash-sale restrictions, allowing investors to maintain their investment allocation while resetting cost basis.

Tax-Loss Harvesting Still Matters

Tax-loss harvesting remains a valuable strategy. Realized losses can offset gains and, in some cases, reduce ordinary income. That said, investors often run out of losses to harvest after prolonged market gains. If your portfolio consistently generates losses year after year, it may be worth reviewing the underlying investment approach.

Roth Conversions

Roth conversions are often portrayed as beneficial for everyone, but in reality, they are highly situation-dependent. The strategy involves recognizing taxable income today in exchange for future tax-free growth and withdrawals.

Conversions can be particularly attractive during years of unusually low income, such as the period between retirement and the start of Required Minimum Distributions (RMDs). However, they are not always worthwhile. In some cases, the tax savings may be modest and not justify the added complexity.

Factors to consider include:
Current and expected future tax brackets and State income taxes

Portfolio size and composition
Expected RMDs
Legacy goals
Charitable intentions

Strategic Withdrawal Sequencing

Retirees with multiple account types can control taxable income by choosing where withdrawals come from:
Taxable brokerage accounts
Traditional IRAs/401(k)s
Roth accounts
Cash reserves

Choosing withdrawals carefully enables them to: fill desired tax brackets each year without unnecessarily jumping into higher brackets.

Managing Net Investment Income Tax (NIIT)

The 3.8% NIIT applies when modified adjusted gross income exceeds certain thresholds. To try to stay below or minimize exposure to NIIT thresholds HNW investors may:
Spread gains over multiple years.
Use installment sales.
Offset gains with harvested losses.
Coordinate charitable giving and deductions.

Charitable Giving and Bracket Management

Large charitable gifts can be timed to offset high-income years. This can create tax opportunities to execute some of the other ideas discussed here. Popular strategies include:
Donor-advised funds (DAFs)
Appreciated securities donations
Qualified charitable distributions (QCDs) from IRAs after age 70½

Estate Planning Opportunities

Some wealthy families intentionally recognize income at the parent level if children or trusts would otherwise face higher tax rates. Examples:
Trust distribution planning.
Asset location strategies.
Family gifting programs coordinated with tax brackets.

The Retirement Tax Window

For many high-net-worth investors, the years between retirement and RMD age represent an important planning opportunity to evaluate and execute the ideas above.

That often means:
Intentionally realizing income in low-tax years.
Filling favorable tax brackets before they disappear.
Coordinating investment, retirement, charitable, and estate planning decisions.

The goal is simple: not necessarily to pay the least tax today, but to pay the least tax over your lifetime. For affluent investors, that distinction can translate into meaningful after-tax wealth over time.

If you would like to discuss how your retirement income planning, tax strategy and portfolio structure fit together, I would be happy to have a conversation.

Note: *This is not legal or tax advice. Please consult with a legal or tax professional regarding your specific situation and the current laws.*

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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DorchesterAdvisors is a Registered Investment Advisor in NJ, NY and MI.

Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to consuming your money after you retire as you do to accumulating it before you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.