
HOW THE WEALTHY REDUCE THEIR TAXES

(AND WHAT WE CAN LEARN FROM THEM)

IF YOU'VE EVER WONDERED HOW WEALTHY INDIVIDUALS LEGALLY PAY LESS IN TAXES, THE ANSWER COMES DOWN TO A MIX OF STRATEGY, TIMING, AND USING THE TAX CODE TO THEIR ADVANTAGE. WHILE THESE APPROACHES AREN'T EXCLUSIVE TO BILLIONAIRES, THEY OFTEN REQUIRE CAREFUL PLANNING AND PROFESSIONAL GUIDANCE TO DO CORRECTLY.

Below are some of the most common strategies to explore further. You may be able to start using a few of these now, even if you're not "wealthy" (yet).

**DROP BELOW THE ARTICLE TO GET A SHORT
SUMMARY AND GLOSSARY OF TERMS!**

1. FAVORING CAPITAL GAINS OVER ORDINARY INCOME

Instead of taking large salaries taxed at higher ordinary income rates, many wealthy people generate income through investments. Long-term capital gains (from selling assets held over a year) are taxed at lower rates than wages, making this a cornerstone of wealth-building.

2. USING TAX-ADVANTAGED ACCOUNTS

While billionaires may not need an IRA or 401(k), they still use tax-deferred or tax-free accounts where possible. For everyone else, maxing out retirement accounts, HSAs, and 529 education plans can reduce taxable income now and grow your savings more efficiently.

3. STRATEGIC LOSSES: TAX-LOSS HARVESTING

Selling underperforming investments to offset gains—called *tax-loss harvesting*—is a common tactic. Losses can also be carried forward to future years, softening the impact of future capital gains.

4. LEVERAGING TRUSTS AND ESTATE PLANNING

Tools like Grantor Retained Annuity Trusts (GRATs), dynasty trusts, and charitable remainder trusts can reduce estate and gift taxes while supporting heirs or charities. These require expert legal and tax advice to structure properly.

5. BORROWING AGAINST ASSETS INSTEAD OF SELLING

Rather than selling investments and triggering taxable gains, some wealthy individuals borrow against their portfolios. The borrowed funds are tax-free, and the investments remain in place to keep growing—a method often referred to as part of the “*Buy-Borrow-Die*” strategy.

6. OFFSHORE ACCOUNTS AND TAX HAVENS (FULLY DISCLOSED)

Some use international accounts or tax-friendly jurisdictions to reduce taxes on certain types of income. This is legal when fully disclosed but carries heavy penalties for non-compliance.

WHAT THE AVERAGE INVESTOR CAN DO

While not all strategies are practical for everyone, you *can* borrow some principles:

- Max out retirement and HSA contributions.
- Hold investments for over a year to qualify for long-term capital gains rates.
- Use tax-loss harvesting if you invest in taxable accounts.
- Consider starting with a local CPA or financial planner who understands tax-efficient investing.

A WORD OF CAUTION

Many of these strategies sit in complex areas of tax law. Even small mistakes—like forgetting a disclosure—can result in big fines or legal trouble. That’s why the wealthy rarely do this alone; they have teams of accountants, tax attorneys, and financial planners.

Bottom line: Tax efficiency isn’t about avoiding taxes—it’s about using the rules to your advantage, within the law. Whether you’re earning \$80,000 or \$8 million, planning ahead is the first step toward keeping more of what you earn.

WONDERING HOW REAL ESTATE PLAYS INTO YOUR FINANCIAL PLANS? LET’S TALK STRATEGIES.

SUMMARY & GLOSSARY OF KEY TAX TERMS

CAPITAL GAINS

The profit from selling an investment or property for more than you paid for it. Long-term capital gains (on assets held over a year) are taxed at preferential rates.

Why it matters: Lower rates for long-term gains can significantly reduce your tax bill if you plan the timing of sales.

401(K)

An employer-sponsored retirement plan allowing pre-tax contributions, which grow tax-deferred until withdrawal.

Why it matters: Reduces current taxable income and helps build retirement savings.

IRA (INDIVIDUAL RETIREMENT ACCOUNT)

A tax-advantaged retirement account; Traditional IRAs allow pre-tax contributions, Roth IRAs offer tax-free withdrawals.

Why it matters: Choosing the right type can optimize your tax situation now and in retirement.

529 PLAN

A tax-advantaged savings plan for education expenses, with investment growth and withdrawals free from federal tax if used for qualified education costs.

Why it matters: Lets you save for education while enjoying tax-free growth.

HSA (HEALTH SAVINGS ACCOUNT)

A tax-advantaged account for medical expenses available to those with high-deductible health plans.

Why it matters: Contributions are tax-deductible, growth is tax-free, and withdrawals for medical expenses are tax-free.

TAX-LOSS HARVESTING

Selling investments that have dropped in value to offset gains from other investments and reduce taxable income.

Why it matters: Can lower your tax bill and improve after-tax investment returns.

MARGINAL TAX RATE

The percentage of tax paid on the last dollar of income earned.

Why it matters: Understanding your marginal rate helps in planning deductions, deferrals, and withdrawals.

TRUST

A legal arrangement where one party holds property for the benefit of another.

Why it matters: Used for estate planning, minimizing estate taxes, and controlling asset distribution.

STEP-UP IN BASIS

A tax provision that resets the cost basis of an inherited asset to its market value at the date of death.

Why it matters: Can eliminate capital gains tax on appreciation that occurred before inheritance.

ESTATE TAX

A federal tax on the transfer of the estate of a deceased person above a certain exemption threshold.

Why it matters: Proper planning can reduce or avoid estate taxes for high-value estates.