

Tax Planning Analysis

2025 Tax Year | Comprehensive Optimization Strategy

Client: James & Sarah Mitchell · Date: June 2026

Executive Summary

James and Sarah Mitchell are a dual-income California household earning \$497,500 annually. With the passage of the One Big Beautiful Bill Act (OBBB) in July 2025, the Mitchells benefit from a substantially higher SALT deduction cap, moving their marginal federal bracket from 32% down to 24%.

Even with this legislative tailwind, their combined federal, state, and payroll tax burden totals approximately \$141,300 — an effective total rate of 28.4%. This analysis identifies three actionable strategies to further reduce their tax liability and accelerate long-term wealth accumulation.

GROSS INCOME
\$497,500

TOTAL TAX BURDEN
\$141,273

EFFECTIVE TOTAL RATE
28.4%

OBBB FEDERAL SAVINGS
\$8,970

Legislative Impact: One Big Beautiful Bill Act

Signed into law on July 4, 2025, the OBBB retroactively applies to the full 2025 tax year. Three provisions directly benefit the Mitchell household:

- **SALT Deduction Cap:** Increased from \$10,000 to \$40,000 (the Mitchells' MAGI of \$441,950 is below the \$500,000 phaseout threshold, so they receive the full cap)
- **Standard Deduction:** Increased to \$31,500 for MFJ (though the Mitchells itemize at \$60,200, making this moot for them)
- **Child Tax Credit:** Increased to \$2,200 per qualifying child, up from \$2,000

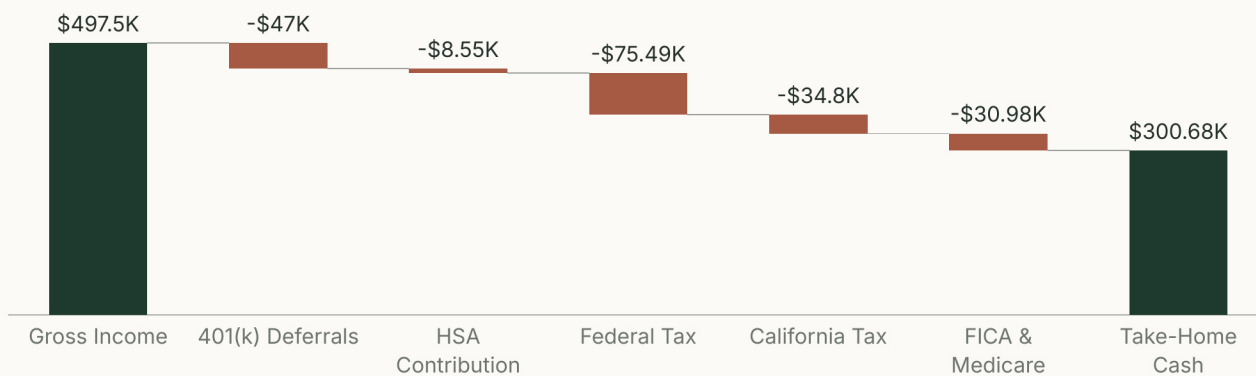
Attribute	Pre-OBBB (Old Law)	★ Post-OBBB (2025)
SALT Deduction	\$10,000	\$40,000
Total Itemized Deductions	\$30,200	\$60,200
Taxable Income	\$411,750	\$381,750
Marginal Federal Bracket	32%	24%
Child Tax Credit (2 children)	\$1,900	\$2,300
Total Federal Tax	\$84,461	\$75,489
Annual Federal Savings	--	\$8,972

Temporary Provision: 2025 Through 2029 The \$40,000 SALT cap is temporary and reverts to \$10,000 in 2030. During this five-year window, the Mitchells should maximize their federal SALT benefit and consider accelerating property tax or state estimated tax payments into high-benefit years where possible.

Current Tax Position

James W-2 Compensation \$295,000	Gross Income \$497,500	Adjusted Gross Income \$441,950
Sarah W-2 Compensation \$190,000	401(k) Deferrals (Both) -\$47,000	Itemized Deductions -\$60,200
Interest & Dividends \$12,500	HSA Contribution (Family) -\$8,550	Taxable Income \$381,750

Gross Income to Take-Home Cash Flow

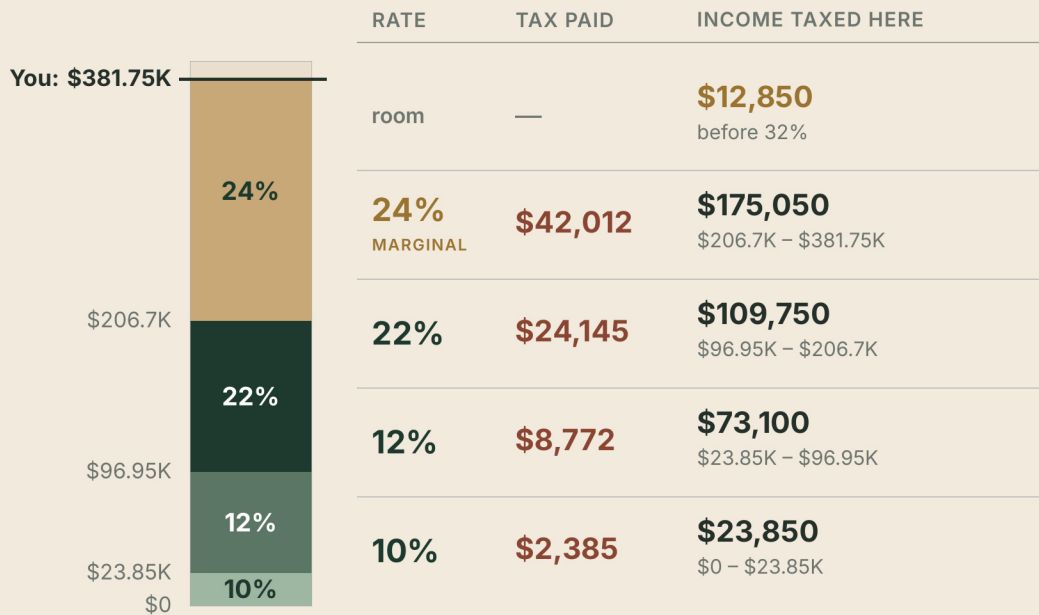


Federal Bracket Analysis

The Mitchells' taxable income of \$381,750 places them in the **24% marginal federal bracket**. Their effective federal income tax rate is 20.2% of taxable income. Critically, they have only **\$12,850 of remaining headroom** before crossing into the 32% bracket — an 8-percentage-point jump that makes bracket management a planning priority.

2025 Federal Income Tax Brackets (Married Filing Jointly)

Taxable income **\$381,750** · Effective **20.3%** · Marginal **24%**

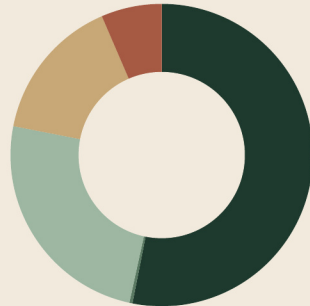


Bracket Boundary Alert With only \$12,850 of room before the 32% bracket, even a modest bonus, investment gain, or side income could push the Mitchells into a significantly higher marginal rate. Strategies to remain within the 24% bracket — such as maximizing pre-tax deferrals and timing capital gain recognition — should be coordinated with the CPA throughout the year.

Tax Burden Composition

Federal income taxes represent 53% of the total burden, while California state taxes and payroll taxes add substantial weight. Although the OBBB raised the SALT cap to \$40,000, the Mitchells still pay \$49,800 in combined state income and property taxes — leaving \$9,800 above the cap with no federal offset.

Total Tax Burden by Category



- Federal Income Tax**
\$75,014 | 53.1%
- Net Investment Income Tax**
\$475 | 0.3%
- California State Tax**
\$34,800 | 24.6%
- Social Security (Both)**
\$21,836 | 15.5%
- Medicare & Add'l Medicare**
\$9,148 | 6.5%

Itemized Deductions	Amount	Note
State & Local Taxes (SALT)	\$40,000	OBBB cap (\$49,800 paid)
Mortgage Interest	\$14,200	Primary residence
Charitable Contributions	\$6,000	Cash donations
Total Itemized	\$60,200	vs. \$31,500 standard

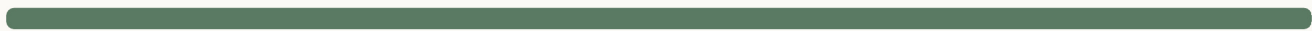
Retirement Contribution Status

The Mitchells are maximizing employer-sponsored retirement contributions but are missing a significant Roth IRA opportunity. At a MAGI of \$441,950, they are well above the \$246,000 income ceiling for direct Roth contributions — but the Backdoor Roth strategy remains fully available.

James 401(k) \$23,500 / \$23,500 · 100%



Sarah 401(k) \$23,500 / \$23,500 · 100%



HSA (Family) \$8,550 / \$8,550 · 100%



Roth IRA (Both) \$0 / \$14,000 · 0%



MAGI vs. Direct Roth IRA Eligibility (MFJ 2025)



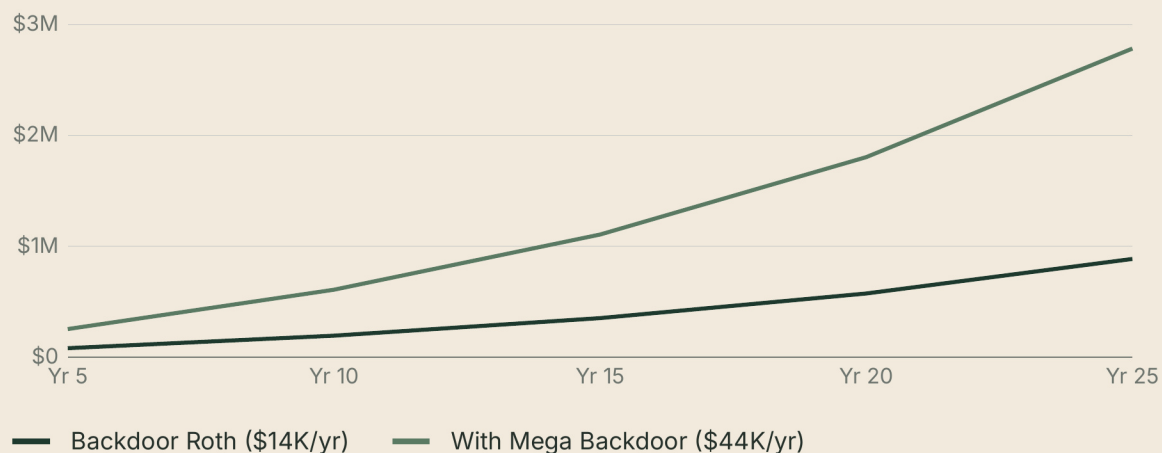
Opportunity 1: Backdoor Roth IRA

Both James and Sarah can contribute \$7,000 each to a non-deductible traditional IRA and immediately convert to a Roth IRA. This creates \$14,000 per year of tax-free growth with no current-year tax cost, provided neither holds existing pre-tax IRA balances.

Attribute	Current Approach	★ With Backdoor Roth
Annual Roth Contributions	\$0	\$14,000
Current-Year Tax Cost	\$0	\$0
Projected Value (20 yrs at 7%)	\$0	\$573,930
Tax on Qualified Withdrawals	N/A	\$0

If James’s employer plan allows after-tax 401(k) contributions with in-plan Roth conversions (the “Mega Backdoor Roth”), annual Roth accumulation could increase to \$44,000 or more. The projection below compares both growth trajectories assuming a 7% annualized return.

Tax-Free Roth Growth Projections (7% Annual Return)



Critical Prerequisite: Pro-Rata Rule Neither James nor Sarah should hold existing pre-tax IRA balances (traditional, SEP, or SIMPLE IRAs). If pre-tax funds exist, the pro-rata rule causes a portion of each conversion to become taxable, significantly reducing the benefit. Confirm all IRA balances across all custodians before executing this strategy.

Opportunity 2: Charitable Giving with Appreciated Securities

The Mitchells currently donate \$6,000 annually in cash. Because they are firmly itemizing at \$60,200, every dollar of charitable giving already produces a full deduction. However, by donating appreciated securities from their taxable brokerage account instead of cash, they capture a double benefit: the same fair-market-value deduction plus avoidance of capital gains tax on the donated shares.

Strategy Comparison	Cash Donation	Appreciated Stock
Donation Amount	\$6,000	\$6,000
Charitable Deduction	\$6,000	\$6,000
Income Tax Saved (Fed + CA)	\$2,000	\$2,000
Capital Gains Tax Avoided	\$0	\$840
Total Tax Benefit	\$2,000	\$2,840

Assumes donated shares have a cost basis of \$3,000 (50% appreciation). Capital gains avoided calculated at combined 15% federal LTCG, 3.8% NIIT, and 9.3% California rate.

Donor-Advised Fund (DAF) Advantage Opening a Donor-Advised Fund allows the Mitchells to front-load a larger contribution of appreciated stock in a single year, receive an immediate deduction, and distribute grants to charities over time. This is especially powerful during the temporary OBBB SALT window (2025–2029) when itemized deductions are maximized.

Opportunity 3: Taxable Account Optimization

The Mitchells hold approximately \$350,000 in a taxable brokerage account that has not been actively managed for tax efficiency. Two complementary strategies can materially reduce the ongoing tax drag.

Tax-Loss Harvesting

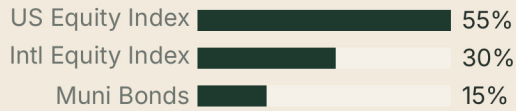
A review of unrealized positions may reveal harvestable losses that can offset realized gains or up to \$3,000 of ordinary income per year. Based on typical market volatility for a diversified portfolio, \$15,000 to \$20,000 in losses may be available for harvest.

Tax-Loss Harvesting Estimate	Amount
Estimated Harvestable Losses	\$18,000
Offset: Realized Capital Gains	\$12,000
Offset: Ordinary Income (\$3K annual cap)	\$3,000
Carried Forward to Future Years	\$3,000
Estimated Tax Savings (Year 1)	\$4,200 - \$5,000

Asset Location Optimization

Moving tax-inefficient holdings (bonds, REITs, high-dividend funds) into tax-deferred accounts and keeping tax-efficient holdings (broad-market index ETFs) in the taxable account reduces annual tax drag by an estimated \$1,500 to \$2,500 per year.

Taxable: Tax-Efficient Holdings



Tax-Deferred: Tax-Inefficient

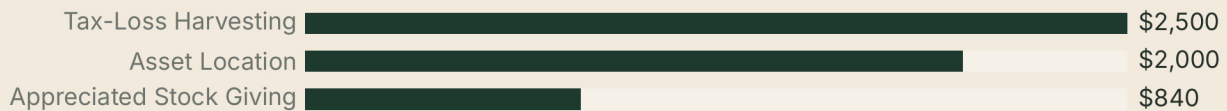


Combined Strategy Impact

The table below summarizes the estimated annual impact of each strategy alongside its long-term wealth effect.

Strategy	Annual Tax Impact	Long-Term Value
OBBB Legislative Benefit	\$8,972 federal savings	\$44,860 over 5-yr window
Backdoor Roth IRA	Tax-free growth	\$574K+ over 20 yrs
Appreciated Stock Donations	~\$840 extra benefit	Ongoing per donation
Tax-Loss Harvesting	\$2,000 - \$3,000 ongoing	\$4,200 - \$5,000 Year 1
Asset Location	\$1,500 - \$2,500	Ongoing annual savings
Total Recurring Savings (excl. Roth)	\$4,300 - \$6,300	

Estimated Recurring Annual Savings by Strategy



Year-End Action Items

The following steps should be implemented for the 2025 tax year and carried forward into 2026 planning.

1. Open traditional IRA accounts for both James and Sarah. Confirm zero pre-tax IRA balances across all custodians to avoid the pro-rata rule.
2. Execute Backdoor Roth conversions: contribute \$7,000 each to traditional IRAs, then convert to Roth within 1-2 business days. Repeat annually.
3. Request James's 401(k) Summary Plan Description from HR to evaluate Mega Backdoor Roth eligibility (after-tax contributions with in-plan Roth conversion).
4. Open a Donor-Advised Fund. For future charitable giving, fund the DAF with appreciated securities from the taxable brokerage (select lots with the lowest cost basis).
5. Review the taxable brokerage account for tax-loss harvesting opportunities. Harvest losses while maintaining target allocation through substitute securities. Observe the 30-day wash sale rule.
6. Rebalance holdings across accounts for optimal asset location: move bonds, REITs, and high-dividend funds to 401(k)/IRA; keep index equity ETFs in the taxable account.
7. Monitor income through year-end for bracket management. With only \$12,850 of headroom in the 24% bracket, coordinate with CPA on bonus timing and capital gain recognition.
8. Review SALT payment timing with CPA to maximize deductions during the 2025-2029 OBBB window before the cap reverts to \$10,000 in 2030.

CPA Coordination Notes

Key Items for the Tax Preparer

- **Backdoor Roth:** Form 8606 must be filed for each spouse reporting the non-deductible traditional IRA contribution and Roth conversion. Confirm zero pre-tax IRA balances to avoid pro-rata complications.
- **SALT Deduction:** Claim the full \$40,000 under the OBBB. MAGI of \$441,950 is below the \$500,000 phaseout. Total SALT paid (\$49,800) exceeds the cap by \$9,800.
- **Child Tax Credit:** Claim \$2,200 per child (2 qualifying children) under the OBBB increase. Credit phases down by approximately \$2,100 at this AGI, resulting in a net CTC of \$2,300.
- **Tax-Loss Harvesting:** Provide a summary of all harvested losses, replacement securities, and trade dates to ensure wash sale rule compliance. Net capital losses offset gains first, then up to \$3,000 of ordinary income per year.
- **NIIT:** The 3.8% Net Investment Income Tax applies to \$12,500 of investment income (AGI exceeds the \$250,000 MFJ threshold). Include on Form 8960.
- **Charitable Contributions:** If appreciated stock is donated to a DAF, report at fair market value. Form 8283 is required for non-cash contributions over \$500. No capital gain is recognized on donated shares held more than one year.

IMPORTANT DISCLOSURES

This analysis is based on hypothetical client data and is prepared for illustrative purposes only. All figures are estimates derived from the scenario profile and 2025 federal and California tax schedules, including provisions of the One Big Beautiful Bill Act (OBBB) as enacted July 4, 2025. Tax laws, rates, and thresholds are subject to change and further IRS guidance. This document does not constitute tax, legal, or investment advice. Consult a qualified tax professional before implementing any strategy discussed herein. Projected investment returns are hypothetical and do not guarantee future results.