

Tax friction for high earners:

The hidden levers that
change outcomes



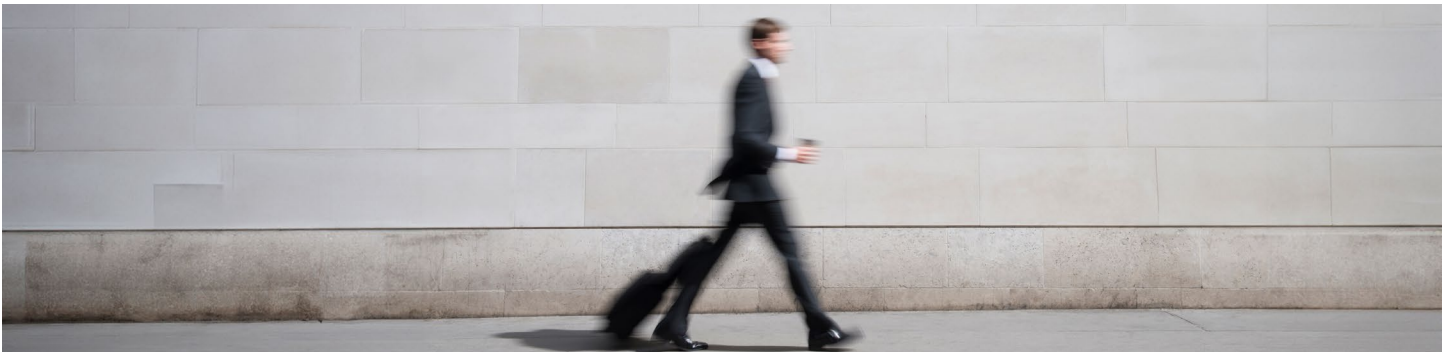
Higher earners often face tax friction due to layered surtaxes, income phaseouts, investment rules and interactions across federal and state taxes. This friction has the potential to significantly erode wealth accumulation, especially for taxpayers whose incomes exceed \$400,000, the threshold at which many of these tax liabilities overlap.

While basic tax planning strategies, such as income timing and standard deductions, can make an impact, many high earners benefit from more sophisticated strategies that address these specific friction points. Due to their complex nature, the following strategies should be carefully implemented and monitored by your advisor, CPA and attorney.

Surtax mitigation strategies

Two key surtaxes have the potential to significantly erode high-income earners' wealth accumulation potential.

- **Net Investment Income Tax (NIIT):** NIIT is a 3.8% federal surtax on certain investment income that applies to certain higher-income individuals, estates and trusts, in addition to regular income and capital gains taxes. NIIT is applied to net investment income once an individual's modified adjusted gross income (MAGI) exceeds \$200,000 (single filer) or \$250,000 (married filing jointly).
- **Medicare surtax:** The Additional Medicare Tax is an extra 0.9% federal tax on earned income that applies to high earners; it's in addition to the standard 1.45% employee Medicare tax (and 2.9% Medicare portion of self-employment tax). The Additional Medicare Tax is applied to Medicare wages and self-employment income above \$200,000 (single, head of household, qualifying surviving spouse), \$250,000 (married filing jointly), or \$125,000 (married filing separately); these thresholds are based on wages and self-employment income, not on MAGI.



The following tax planning strategies can help minimize the impact of these surtaxes.

- Reduce your MAGI where possible through tax-deferred retirement plans (e.g., 401(k)s, 403(b)s, traditional IRAs).
- Use **tax-loss harvesting** strategies to reduce the net capital gains included in your net investment income.
- Invest in tax-exempt municipal bonds and hold high-growth and income-producing assets in retirement accounts where they can grow without capital gains tax exposure.
- Carefully structure business entities with tax minimization in mind.
- When possible, defer bonuses or distributions to years when your total income falls below the thresholds noted above.
- Consider using **tax deferral tools** where appropriate, including: **Qualified Opportunity Funds**, Section 1031 real estate exchanges or deferring Roth conversions in lower-income years.

Qualified small business stock

Section 1202 Qualified Small Business Stock (QSBS) is a powerful exclusion tool, as it allows entrepreneurs and investors to exclude up to 100% of federal capital gains taxes on the sale of eligible startup stock, potentially shielding capital gains from federal income tax and the 3.8% NIIT.

To qualify, the company must be a domestic C corporation with aggregate gross assets of less than \$75 million before and immediately after issuance (indexed for inflation after 2026). The eligible exclusion percentage is tiered based on the stock's holding period, with a 50% exclusion for shares held more than three years, 75% for shares held for four years and 100% for shares held for five years or more (these tiered rates apply to QSBS issued after July 4, 2025; QSBS issued on or before that date must be held more than five years to qualify for any exclusion).

There is also a per-taxpayer, per-issuer limit—\$15 million (indexed for inflation after 2026) for QSBS issued after July 4, 2025, or \$10 million for QSBS issued on or before that date—or 10 times the individual's aggregate adjusted basis in the stock sold in the same year. Because the limit is per taxpayer, per issuer, you may be able to maximize your benefit by gifting shares to your spouse, adult children or an irrevocable non-grantor trust. Doing so may allow you to shelter additional gains; however, it's important to complete any gifting well before sales negotiations to avoid IRS scrutiny.

Retirement portfolio structuring

Beyond maxing out your annual retirement plan contributions, you may be able to **minimize tax friction** by strategically structuring your retirement savings plans.

- **Cash balance and DC plan pairing:** If you're a business owner, consider pairing a cash balance plan with a defined contribution plan to help maximize your deductible contributions and reduce your current adjusted gross income (AGI).
- **Mega backdoor Roth:** If your retirement plan allows after-tax contributions, and offers an in-plan Roth conversion feature, consider maxing out all employer and employee contributions (up to \$72,000 in 2026), then convert the after-tax balance to Roth to access tax-free growth going forward.
- **Asset location:** Placing tax-inefficient assets in tax-advantaged accounts and tax-efficient assets in taxable accounts can help minimize your tax drag over time.
- **Health savings account (HSA):** Contributions to HSAs can provide the triple tax benefits of tax-deductible contributions, tax-free growth and tax-exempt withdrawals for medical expenses.
- **Roth conversion:** Under the right circumstances, it may make sense to convert a portion of your tax-deferred IRA assets to a Roth account. Because this triggers a taxable event, it's important to strategically time your **Roth conversion** during a low-income year.

Charitable giving

Charitable giving strategies continue to offer significant tax efficiencies, especially for high-net-worth families.

- **Donating appreciated assets:** Making an in-kind donation of appreciated assets allows you to avoid capital gains tax and the 3.8% NIIT on appreciation.
- **Bunching using a donor-advised fund (DAF):** Bunching several years' worth of charitable donations into a single large contribution to a DAF allows you to access an immediate tax deduction, while allocating funds over time. This can be especially effective during high-income years, such as when you sell a business, receive an inheritance, etc.
- **Charitable remainder trusts (CRTs):** Funding a CRT with appreciated assets allows you to access an immediate income tax deduction, generate a lifetime income stream for yourself or your heirs, avoid upfront capital gains taxes and support charitable causes that are important to you.
- **Qualified charitable distributions (QCDs):** Once you reach age 70 ½, you can transfer up to \$110,000 (2026 limit) directly from a tax-deferred retirement account to a qualified charity. The distribution to charity can satisfy all or a portion of your required minimum distribution (RMD) and reduces your AGI. Lower AGI may also help reduce the impact of income-based phaseouts and Medicare premium surcharges.



Turning tax friction into opportunity

Tax friction has the potential to significantly erode the long-term wealth accumulation potential of high earners. Fortunately, with a bit of foresight and strategic planning, you can turn this friction into opportunity.

For many high earners, the greatest tax savings do not come from any single strategy. Instead, they result from coordinating multiple planning opportunities across investments, retirement accounts, business interests, charitable giving and estate planning. An integrated approach may help produce materially better after-tax outcomes. Your wealth advisor can help you optimize the tax efficiency of your financial life, identify opportunities that may otherwise be overlooked and help ensure each strategy works in coordination with the bigger picture.

For more information visit: [mariner.com](https://www.mariner.com)

This material is provided for informational and educational purposes only. It does not consider any individual or personal financial, legal, or tax circumstances. As such, the information contained herein is not intended and should not be construed as individualized advice or recommendation of any kind.

Any opinion expressed herein is subject to change without notice. The information provided herein is believed to be reliable, but we do not guarantee accuracy, timeliness, or completeness. It is provided "as is" without any express or implied warranties.

There is no assurance that any investment, plan, or strategy will be successful. Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results, and nothing herein should be interpreted as an indication of future performance.

Many of the tax and estate planning strategies discussed herein involve complex eligibility requirements, implementation considerations, costs and risks. The availability and effectiveness of these strategies depend on an individual's specific circumstances, applicable tax laws and future legislative or regulatory changes. Certain strategies may involve reduced liquidity, increased administrative complexity, concentration risk, irrevocable commitments, transaction costs or other tradeoffs that could outweigh potential tax benefits in some situations. In addition, anticipated tax advantages, deductions, exclusions or tax-free treatment may not be realized if applicable requirements are not satisfied or if tax laws change. Before implementing any strategy, individuals should consult with their tax, legal and financial professionals to evaluate potential benefits, risks and suitability in light of their particular circumstances.

Mariner is the marketing name for the financial services businesses of Mariner Wealth Advisors, LLC and its subsidiaries. Investment advisory services are provided through the brands Mariner Wealth, Mariner Independent, Mariner Institutional, Mariner Ultra, and Mariner Workplace, each of which is a business name of the registered investment advisory entities of Mariner. For additional information about each of the registered investment advisory entities of Mariner, including fees and services, please contact Mariner or refer to each entity's Form ADV Part 2A, which is available on the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). Registration of an investment adviser does not imply a certain level of skill or training.