HB Wealth

Beyond the Paycheck: How Professionals Could Improve After-Tax Results

By: Julian Davis, CPA, CFP®, Senior Wealth Advisor

Physicians, dentists, attorneys, engineers, consultants, and other professional service practitioners spend years honing their crafts and making significant sacrifices to become respected in their fields. Just as they work to maximize their skills and expertise, many also seek to minimize the amount of their hard-earned income that goes toward taxes. However, keeping pace with an increasingly complex and ever-changing tax code can feel like a profession in and of itself.

Many high-earning professionals understand tax planning at a general level. They seek to maximize retirement contributions, work with a CPA on annual filings, and may time certain deductions. But tax-aware investing operates at a different level. It focuses on how investment decisions themselves may influence long-term after-tax outcomes, often in ways that are invisible in a standard performance report. For professionals whose earnings place them in the highest tax brackets, the gap between pre-tax returns and after-tax results could represent a meaningful drag on wealth accumulation over a career.

We can't provide all the answers in one article, but we will highlight some strategies and considerations that go beyond the paycheck. The good news is that high-earning professionals don't need to have all the answers themselves.

We Believe Where You Hold Investments Matter as Much as What You Hold

Many investors focus primarily on asset allocation: how much is invested in stocks, bonds, cash, and alternative investments. Equally important is asset location, or where those investments are held.

This distinction is often overlooked, even by financially sophisticated professionals. Two portfolios with identical holdings can produce meaningfully different after-tax results depending on which accounts house which investments. Different investments generate different types of taxable income. Some produce ordinary income, while others may generate qualified dividends or long-term capital gains. Thoughtful asset location can help improve after-tax results without changing the portfolio's intended risk profile. Depending on the investor's overall circumstances, tax-inefficient assets may be better suited to tax-deferred accounts, tax-efficient equity strategies may be well-suited to taxable accounts, and Roth assets may be reserved for investments with greater long-term growth potential.

Tax-aware investing also extends to tax-loss harvesting, capital gain management, holding-period decisions, municipal bond analysis, and the tax efficiency of different investment vehicles. Lower annual tax drag can potentially leave more assets invested and compounding over time. This is sometimes referred to as tax alpha: value added not by picking better investments, but by keeping more of what those investments already earned after taxes.

For professional services practitioners managing portfolios across multiple account types, the compounding effect of reduced tax drag over a 20- or 30-year career could be substantial.

Diversify Across Tax Treatments, Not Just Asset Classes

In our view, most investors understand the value of diversifying among asset classes. Fewer consider diversification across tax treatments. Professional service practitioners have often accumulated significant wealth in pre-tax retirement accounts while having comparatively limited Roth or taxable assets. That concentration could reduce flexibility when future income needs and tax rates change.

This is a common pattern among professional services practitioners who seek to maximize retirement plan contributions each year. While that discipline is valuable, it may create a portfolio that is heavily weighted toward a single tax treatment, leaving limited options for managing taxable income in retirement or responding to changing legislation.

A diversified tax structure can include traditional retirement accounts, Roth accounts, taxable brokerage assets, and Health Savings Accounts when eligible. The purpose is to create options for funding spending, managing taxable income, responding to market conditions, and planning for heirs. When withdrawals begin, having assets spread across different tax treatments allows you to choose which income sources to tap each year. That flexibility can influence marginal tax rates, Medicare premium surcharges, and the tax treatment of Social Security benefits.

Rethink the Retirement Plan Behind the Contributions

While professional service practitioners contributing diligently to a retirement plan may assume they've exhausted their tax-advantaged savings opportunities, their retirement plan design may warrant a closer look. Depending on factors such as ownership structure, profitability, employee demographics, and cash-flow consistency, other options to consider may include a solo 401(k), SEP IRA, SIMPLE IRA, cash balance plan, or defined benefit plan.

The right plan structure could unlock meaningfully higher contribution limits. For professional services practitioners in established practices with stable revenue, layering a cash balance plan on top of a 401(k) may allow annual tax-advantaged contributions well above the standard limits. This is an area where the plan design itself serves as a planning tool, and periodic review ensures that the structure still reflects the practice's current financial profile.

Lower-Income Years May Be Higher-Opportunity Years

Less income could present more tax-planning opportunities. This may be the result of a planned or unplanned one-year dip in earnings, or due to retirement.

For professionals still in practice, a year of reduced revenue, a sabbatical, or a career transition can open a temporary window to pursue strategies that would be less efficient during peak-earning years. During the golden window, a retiree may be able to recognize income deliberately at a lower marginal rate than during working years or after required distributions begin. Depending on the circumstances, planning may include partial Roth conversions, strategic withdrawals from tax-deferred accounts, capital gain harvesting, or the intentional realization of income that would otherwise be deferred. These strategies can also be used by a professional who is still working but has a lower-income year.

This does not mean accelerating income is always appropriate. The analysis should account for projected spending, tax brackets, future required distributions, Medicare-related thresholds, charitable goals, and estate objectives. The broader principle is to evaluate income over multiple years rather than treating each tax year in isolation. In some situations, deferring income from peak-earning years and recognizing it in lower-income years can help improve lifetime after-tax outcomes. Different years may bring different tax planning opportunities; thus, it is important to have ongoing conversations with your team of advisors.

Start Planning Before a Liquidity Event, Not After

Some of the most valuable planning opportunities exist before proceeds are received. A practice sale, partner buyout, merger, large bonus, equity payout, or other windfall can quickly change a professional's tax posture. Once a transaction closes, however, certain planning choices may be limited or no longer available.

We believe this sequencing challenge is critical for professional services practitioners approaching a transition. The difference between planning that begins six months before a transaction and planning that begins after the terms are final can represent a significant shift in available options. Early coordination can help the advisory team evaluate the timing and structure of income, charitable gifting, concentrated investment positions, estimated taxes, and the interaction between the transaction and the broader financial plan.

The professional does not need to determine the solution alone. A better starting point may be to ask: What decisions must be made before the transaction? Which advisors should be involved? What information does each advisor need? And where might the transaction create tax, investment, charitable, or estate planning opportunities?

Align Charitable Giving with Tax Strategy

Professional service practitioners who are charitably inclined may benefit from evaluating not only how much they give, but also what they give and when they give it.

For example, gifting appreciated securities rather than cash may help support a qualified charitable organization while avoiding the realization of embedded capital gains. A donor-advised fund may allow a donor to make a larger contribution in a high-income year and recommend grants to charities over time.

Charitable planning may be particularly relevant in a year involving a practice sale, unusually large distribution, or other income spikes.

The choice of approach depends on the donor's goals, tax position, cash-flow needs, and the receiving organization. The opportunity tends to be strongest when charitable intent is incorporated into the broader plan before a taxable event, rather than considered only after the event has occurred.

The Real Strategy is Coordination

It is important for a professional service practitioner's advisory team to work together cohesively. The CPA, attorney, wealth advisor, insurance professional, and retirement plan consultant each provide valuable advice and expertise, but opportunities could be missed when they aren't on the same page. Some of the most meaningful planning opportunities emerge when advisors work together to evaluate how tax strategy, investments, retirement plans, charitable giving, and future liquidity events affect one another.

Many of those planning opportunities do not come from one specific strategy. They come from a series of smaller decisions that have improved outcomes over time: a tax-efficient investment allocation, an appropriately designed retirement plan, a charitable strategy implemented before a liquidity event, or a Roth conversion completed during a lower-income year. Individually, the savings may seem modest. Collectively, they may have a significant impact on long-term after-tax wealth.

Take the Next Step Toward Seeking Better After-Tax Results

For professional services practitioners who have spent years building expertise and income, the next level of financial progress often comes from how that income is managed, invested, and protected from unnecessary tax erosion. A wealth advisor who understands the financial complexities of a demanding professional career can help identify coordination gaps and opportunities for after-tax improvements. Connect with one of our wealth advisors who specializes in working with professional service practitioners.

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