

# SFMG TAX MANAGEMENT SOLUTIONS

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Tax-Efficient Investment Structures and  
Strategies at SFMG Wealth Advisors



# EXECUTIVE SUMMARY

Tax strategies are designed to utilize IRS tax codes or investment techniques to manage personal tax liabilities. Depending on the type of capital gain, SFMG can offer solutions that may help to:

- 🌿 Defer the tax on those gains,
- 🌿 Reduce the taxable gain, or
- 🌿 Produce tax-free gains

SFMG utilizes multiple solutions depending on our clients' unique situations:

- 🌿 Real Estate Investment Strategies
- 🌿 Tax Free Income – Municipal Bonds
- 🌿 Concentrated Stock Management
- 🌿 Asset Location Optimization
- 🌿 Traditional Tax Loss Harvesting
- 🌿 Financial/Estate Planning Strategies



*\*SFMG uses caution in pursuing strategies designed solely for the tax benefits, typically to generate large losses. Oil & gas investments sold as a tax deduction vehicle, Cost Segregation, Conservation Easements, and certain insurance products may reduce tax burdens, but a poor investment strategy may significantly undermine the tax benefit.*

# REAL ESTATE INVESTMENT STRATEGIES

## QUALIFIED OPPORTUNITY ZONES

Qualified Opportunity Zones (“QOZ”) were created by the 2017 Tax Cuts and Jobs Act to spur economic development throughout the United States through tax benefits to investors who invest eligible capital into eligible communities. Investments within these areas are incentivized with certain tax benefits.

A Qualified Opportunity Fund “QOF” is an investment vehicle that holds at least 90% of its assets in “qualified opportunity zone property”. Potential tax benefits may be available to investors who realize short-term or long-term capital gains from the sale of an investment and reinvest those gains into a QOF within 180 days. Gains from stocks, bonds, real estate, companies, among other assets, are eligible.

## TAX INCENTIVES & ADVANTAGES



### DEFER TAX PAYMENTS

*By timely reinvestment of capital gains into a Qualified Opportunity Fund, the investor can defer tax payments on their original gains until December 31, 2026 or until the fund investment is exchanged or sold, whichever date is earliest.*



### TAX-FREE GROWTH

*Investors who remain in the Qualified Opportunity Fund for ten years will not pay capital gains taxes on any appreciation from their original investment amount. This exclusion is permanent.*

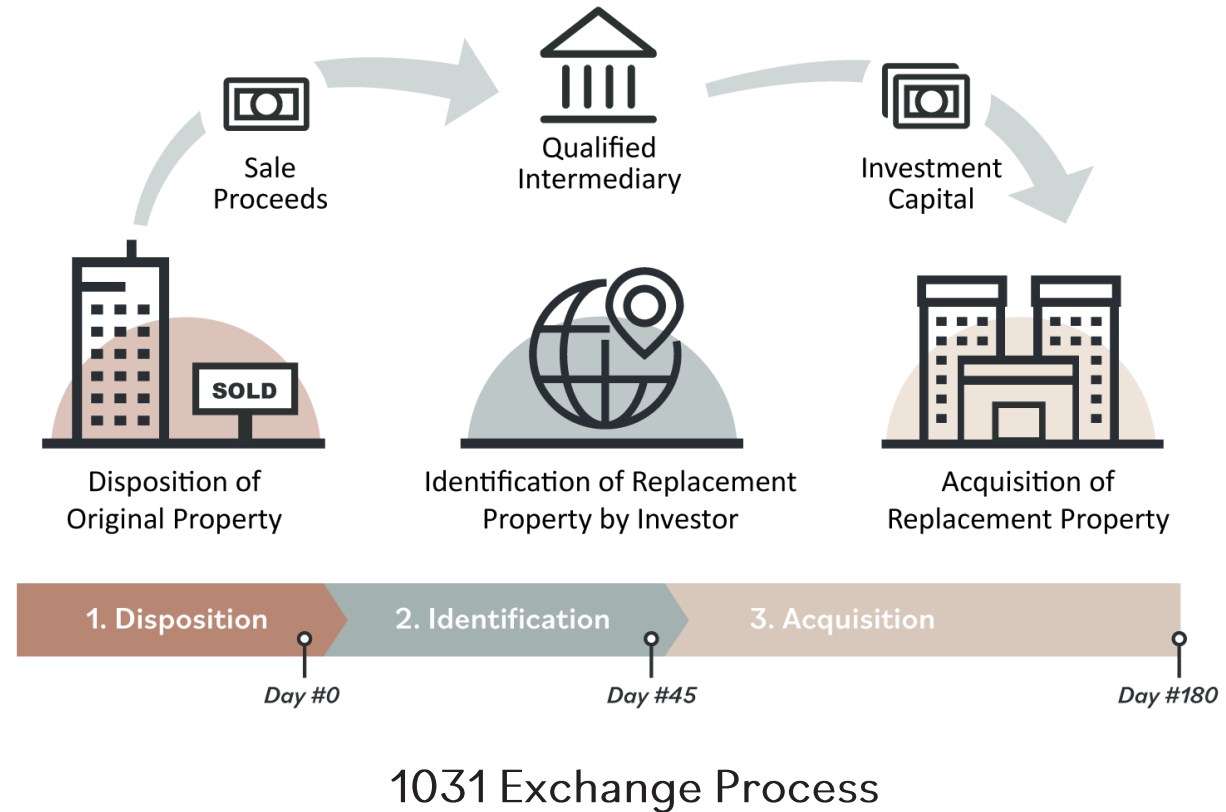
# REAL ESTATE INVESTMENT STRATEGIES

## DST (DELAWARE STATUTORY TRUST)/1031 EXCHANGE

1031 exchange funds provide a tax-deferred strategy for reinvesting proceeds from the sale of one property into another, allowing investors to defer capital gains taxes and preserve more capital for future investments. By strategically leveraging these tax-efficient vehicles, investors have the opportunity to optimize their portfolios, enhance after-tax returns, and contribute to both personal financial growth and community development.

To qualify for this exchange, the properties must be like-kind and have equal (or greater) debt. There are time stipulations around the exchange; the new property must be identified within 45 days and closed on within 180 days of the sale of the original property.

1031 Exchange DST Funds are an option for investors looking for diversified or professionally managed investments in place of, or to supplement, other direct 1031 exchange real estate investments.



# TAX-FREE INCOME – MUNICIPAL BONDS

Municipal bonds can play a valuable role in a well-diversified investment strategy, offering tax-free income, stability, and flexibility to investors seeking reliable income and capital preservation.

- 🌿 SFMG partners with an institutional Separate Account Manager to invest in municipal bonds.
- 🌿 Our partner is one of the largest providers of municipal bond separately managed accounts, providing clients with access to the expertise of a leading portfolio management team with the flexibility to customize institutional-quality strategies.

Income (Single filers)	Income (Joint filers)	2024 Federal Income Tax Rate	With a tax-free yield of:								
			1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%
			<b>You need to find a taxable investment yielding:</b>								
\$0 to \$11,600	\$0 to \$23,200	10.0%	1.11%	1.67%	2.22%	2.78%	3.33%	3.89%	4.44%	5.00%	5.56%
\$11,601 to \$47,150	\$23,201 to \$94,300	12.0%	1.14%	1.70%	2.27%	2.84%	3.41%	3.98%	4.55%	5.11%	5.68%
\$47,151 to \$100,525	\$94,301 to \$201,050	22.0%	1.28%	1.92%	2.56%	3.21%	3.85%	4.49%	5.13%	5.77%	6.41%
\$100,526 to \$191,950	\$201,051 to \$383,900	24.0%	1.32%	1.97%	2.63%	3.29%	3.95%	4.61%	5.26%	5.92%	6.58%
\$191,951 to \$243,725	\$383,901 to \$487,450	32.0%	1.47%	2.21%	2.94%	3.68%	4.41%	5.15%	5.88%	6.62%	7.35%
\$243,726 to \$609,350	\$487,451 to \$731,200	38.8%*	1.63%	2.45%	3.27%	4.08%	4.90%	5.72%	6.54%	7.35%	8.17%
\$609,351 or more	\$731,201 or more	40.8%*	1.69%	2.53%	3.38%	4.22%	5.07%	5.91%	6.76%	7.60%	8.45%

\* Includes 3.8% Medicare surtax.



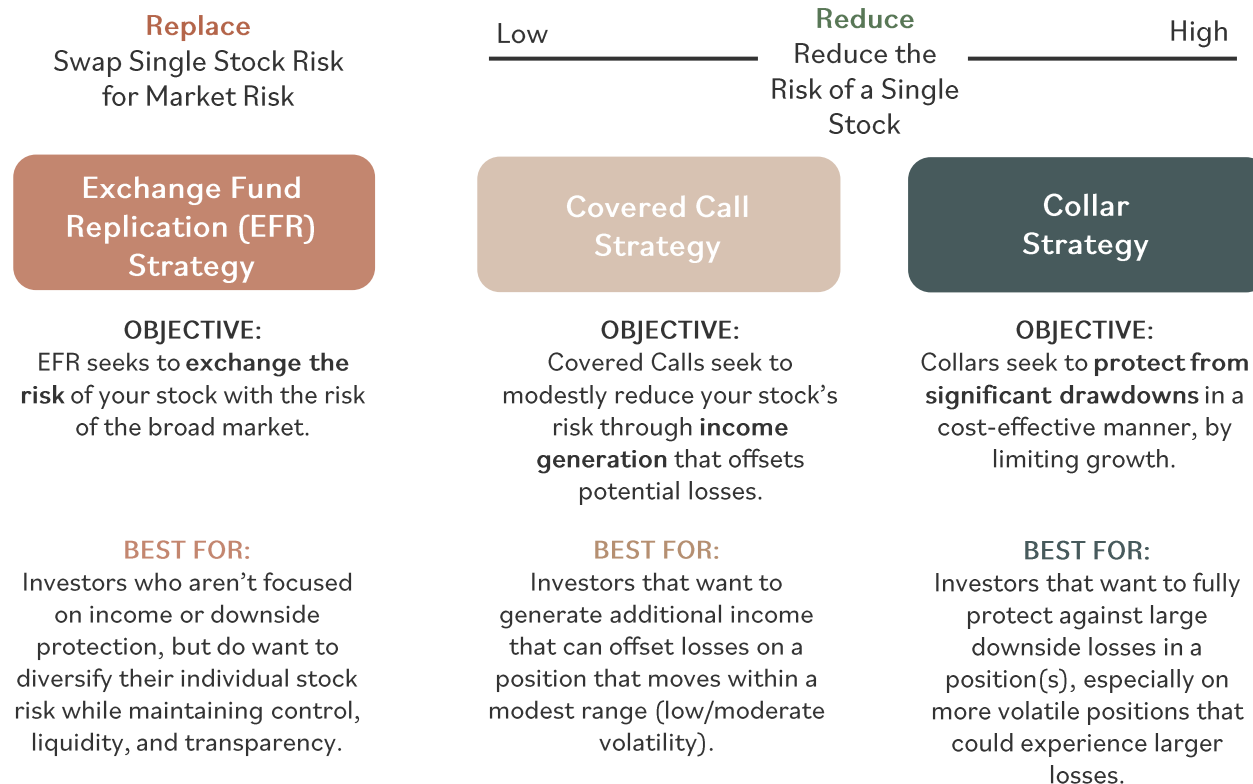
## THE POWER OF TAX-EQUIVALENT YIELD

An investor's tax rate has a significant impact on the results of a tax-equivalent yield. The chart above displays the amount of additional yield that is required from a "taxable" fixed-income investment to equal the "tax free" yield of a municipal bond.

# CONCENTRATED STOCK SOLUTIONS

For many investors, rising stock markets have created significant wealth but also left them with outsized exposure to individual stocks with a low-cost basis and large gains that are difficult to diversify. These concentrated positions subject investor's portfolios to single stock volatility, the risk of permanent impairment, or major capital gains tax bills if they want to sell and diversify.

To manage these concentrated positions, SFMG has partnered with an asset management firm dedicated to helping investors solve the problem of how to manage low-basis concentrated stock positions. They provide customized option strategies that combine world-class technology with comprehensive derivatives expertise to help investors tax-efficiently manage their downside risk.



## EXECUTIVES OR EMPLOYEES WITH COMPANY STOCK

**Basis Hedging** modifies one of the strategies above for securities subject to special limitations on trading. It involves using options on a security that has a high historical correlation to the security the client wishes to hedge. Common examples of securities with limitations include Mutual Funds (non-optionable), securities that don't have liquid options, restrictions on hedging employee sponsored stock, recent IPOs, foreign stocks, and executives/insiders subject to Rule 10b-5(1).

**Basis Risk** is created by the use of an imperfect hedge - the risk is that the hedge and the underlying instrument will not perform similarly, despite past returns being highly correlated.

# TAX-LOSS HARVESTING & ASSET LOCATION OPTIMIZATION

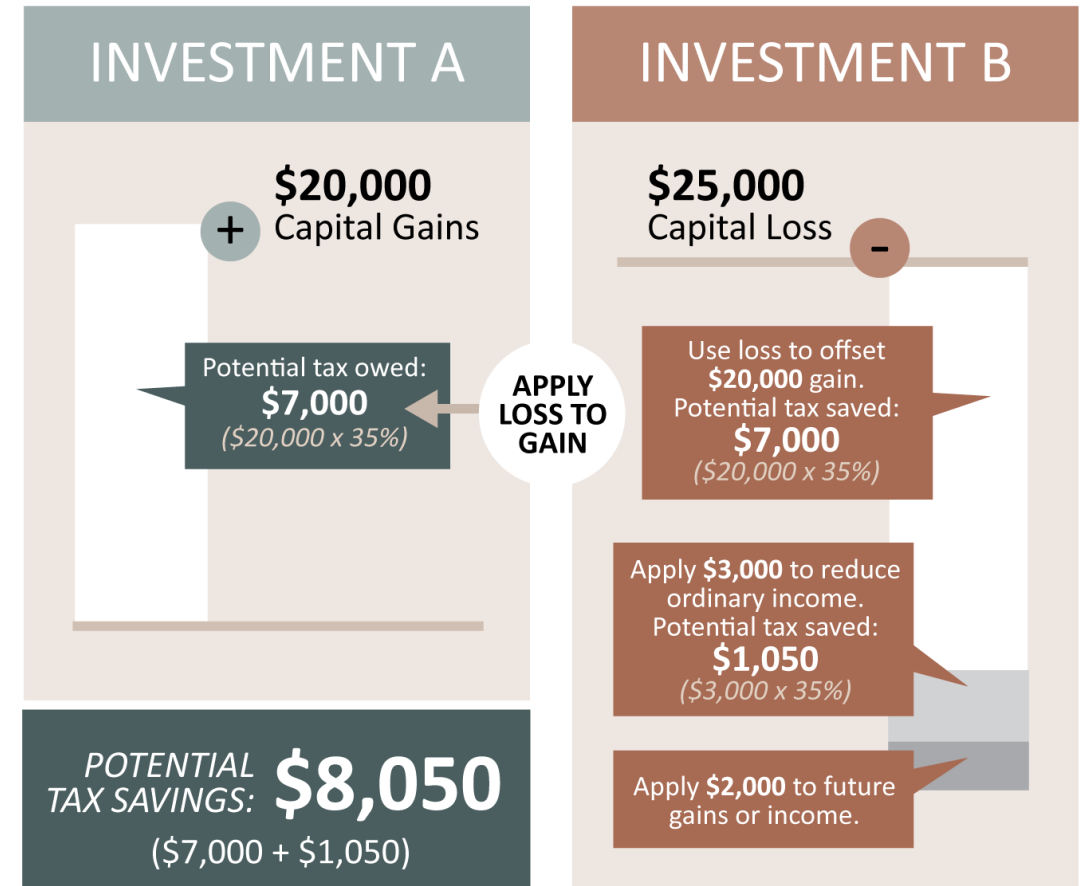
## TAX LOSS HARVESTING

- Volatility in the market presents opportunities beyond just price fluctuations. Our proactive approach to tax loss harvesting involves strategically selling investments at a loss to offset capital gains and minimize taxable income.
- By harvesting losses intelligently, SFMG can potentially reduce your tax bill but also enhance your portfolio's overall tax efficiency, ultimately driving long-term wealth accumulation.

## ASSET LOCATION OPTIMIZATION

- Optimizing the location of your assets across various account types can significantly impact your after-tax returns. By strategically allocating assets based on their tax treatment, SFMG helps you minimize taxes and maximize growth potential.
- Whether it's placing tax-inefficient assets in tax-advantaged accounts or leveraging tax-efficient investments in taxable accounts, our tailored approach ensures every dollar works harder for you.

## HYPOTHETICAL TAX LOSS HARVESTING EXAMPLE:



Source: [How to Cut Your Tax Bill with Tax-Loss Harvesting | Charles Schwab](#)

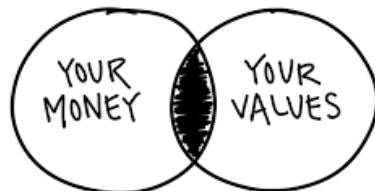
# FINANCIAL & ESTATE PLANNING TAX STRATEGIES

## CHARITABLE PLANNING

For those that are charitably inclined, we examine ways to minimize tax liability by gifting to the organizations you are passionate about. Below, we outline several strategies aimed at amplifying the impact of your contributions, benefiting both you and the charities you support:

- Donor-Advised Fund (DAF)** - Enable individuals to donate appreciated assets, receive immediate tax benefits, and recommend grants to their favorite charities over time.
- Qualified Charitable Distributions (QCD) from Retirement Accounts** - Enable individuals aged 70½ and older to donate directly from their IRAs to charities, potentially reducing their taxable income by excluding the donated amount from their required minimum distributions.
- Private Foundations** - Offer individuals and families a way to create a lasting legacy by managing their own charitable giving, allowing for greater control over donations and grant-making decisions.
- Charitable Remainder Trusts (CRT)**- The donor receives income for a specified period or for life, after which the remaining assets are donated to one or more charities. This arrangement provides immediate tax benefits for the donor while ultimately benefiting philanthropic endeavors.

## CHARITABLE GIFT PLANNING



## MAXIMIZING RETIREMENT CONTRIBUTIONS

- We work to optimize contributions to retirement accounts such as IRAs and HSAs to reduce taxable income while simultaneously building a robust retirement nest egg. This approach not only enhances long-term financial security but also leverages tax advantages, as contributions to these accounts often come with immediate tax benefits, such as tax deductions or tax-deferred growth.

## TAX EFFICIENT WITHDRAWAL STRATEGIES

- When distributions are needed, we develop personalized tax-efficient withdrawal strategies in retirement. This involves balancing withdrawals from taxable, tax-deferred, and tax-free accounts to minimize the overall tax impact based on each individual's situation and income replacement needs.
- Factors such as current income, projected future income, life expectancy, health care costs, and estate planning goals all influence the optimal withdrawal strategy. For instance, retirees with significant taxable income may benefit from delaying withdrawals from tax-deferred accounts to avoid pushing themselves into a higher tax bracket.



# FINANCIAL & ESTATE PLANNING TAX STRATEGIES

## 529 PLAN TO ROTH IRA

🌿 For those with 529 Plans, the 529 Plan to Roth IRA strategy involves leveraging college savings for retirement. Initially designed for education expenses, a 529 Plan allows tax-free growth and withdrawals for qualified educational costs. However, if funds remain unused, converting them to a Roth IRA offers a tax-efficient way to repurpose savings. Contributions to a Roth IRA grow tax-free and can be withdrawn penalty-free for retirement, making it a versatile strategy for long-term financial planning beyond education.

🌿 **Limitations and rules for this strategy are listed below:**

- 🌿 The 529 plan must have been open for the designated beneficiary for at least 15 years.
- 🌿 The Roth IRA must be established in the name of the designated beneficiary of the 529 account.
- 🌿 The amount transferred from a 529 account to a Roth IRA in the applicable year, together with all other contributions in the year to IRAs for the same beneficiary, must not exceed the Roth IRA annual contribution limit applicable to the beneficiary.
- 🌿 The transfer amount must come from contributions made to the 529 account at least 5 years prior to the transfer date.
- 🌿 The aggregate amounts transferred from 529 accounts to all Roth IRAs must not exceed \$35,000 per beneficiary.

## ROTH CONVERSIONS

- 🌿 We also assist clients with Roth conversions, strategic financial maneuvers involving the transfer of funds from a traditional IRA or eligible retirement account to a Roth IRA.
- 🌿 This process involves paying taxes on the converted amount at the time of conversion but allows future withdrawals (including earnings) from the Roth IRA to be tax-free, provided certain conditions are met. This can be especially useful for those that are in lower tax brackets prior to beginning their Required Minimum Distributions on their traditional retirement accounts.

## 1035 EXCHANGE

- 🌿 One of our services entails reviewing life insurance and annuity products to ensure they align with the client's needs, and if necessary, optimizing a 1035 exchange to transition them out of an unsuitable product.
- 🌿 A 1035 exchange is a tax-deferred strategy that allows individuals to transfer funds from one life insurance or annuity policy to another without facing immediate tax consequences. This method is often used to upgrade coverage, consolidate policies, or take advantage of superior investment options offered by a different insurer.

# OUR TEAM



# FIND YOUR CONFIDENCE FOR LIFE.

*If you have any questions about SFMG Tax Management Solutions,  
please contact your Wealth Advisor or visit us online at [sfmg.com](https://www.sfmfg.com)*