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# The Tax Planning Myth

Why What Your Advisor Calls “Tax Strategy” Is Mostly Theater—
and What Actually Moves the Needle

# Introduction

## What the Industry Calls Tax Planning

Every fall, financial advisors across America scramble to harvest tax losses, stuff clients into municipal bonds, and congratulate themselves on a job well done. Clients nod along, grateful that someone is "handling" their taxes. The problem? Most of what passes for tax planning in the mainstream investment industry is theater—visible, easy to explain, and largely ineffective.

The industry defines tax planning the way it defines risk: in a way that is convenient for the firm, not necessarily useful to the client. Buying a municipal bond is not a tax strategy. Harvesting a loss you'll simply recreate is not a strategy. And deferring taxes into a 401k, without knowing anything else about your situation, accomplishes exactly nothing.

**If your advisor's tax advice is limited to muni bonds and year-end loss harvesting, you don't have a tax plan—you have a placebo.**

JONES Fiduciary Wealth Management

At **Jones Fiduciary Wealth Management (JFWM)**, we approach tax planning the way the ultra-wealthy always have: by understanding the actual mechanics of the tax code and engineering your financial life around them—not by reaching for the nearest off-the-shelf solution.

**JFWM focuses on strategies that actually reduce your lifetime tax burden—not ones that are merely easy to explain at a client review.**

# About the Author

Shaun M. Jones, CFP®, CFS

**Shaun M. Jones, CFP®, CFS**, founder of JFWM, has spent **more than two decades** watching the financial industry confuse activity with results. He has seen advisors spend weeks on tax-loss harvesting exercises that save clients a few hundred dollars—while ignoring strategies that could save them **hundreds of thousands.**

As a fee-only fiduciary, Shaun approaches tax planning the way the ultra-wealthy have for generations: by reading the actual tax code, mapping it against a client's real situation, and building a plan around the strategies that move real numbers—not the ones that are merely easy to put in a year-end report.

JFWM takes a different approach: one grounded in the **math, not the marketing**.

**JFWM does not sell activity. We focus on the strategies that actually reduce your lifetime tax burden.**

## The Myths That Dominate the Industry

### Myth #1: Tax-Loss Harvesting Is a Meaningful Benefit

At year-end, many advisory firms make a big production of tax-loss harvesting. Clients get calls, letters, and sometimes a multi-page report explaining how the firm "saved" them money. In reality, the math tells a different story.

Here's how it actually works. Suppose you buy $150,000 of a stock, it drops to $100,000, and your advisor sells it to "harvest" the $50,000 loss—immediately buying a similar position to stay invested. Sounds smart. But compare it to the alternative: you do nothing, hold through the dip, the stock recovers to $200,000, and you sell. Your taxable gain is $50,000—exactly the same as in the harvesting scenario. The end result is identical.

## Tax-loss harvesting doesn't eliminate taxes. It temporarily relocates them.

**What is the actual, real-world benefit?** On a $250,000 portfolio, the IRS allows you to use $3,000 of that harvested loss to offset ordinary income each year. At the 37% federal rate, that saves you $1,110. But because you're using that $3,000 loss against ordinary income instead of against a future capital gain (taxed at 20%), you're effectively saving 17 cents on the dollar instead of 20—netting you roughly **$510 per year**. On a $2 million portfolio, that's two basis points. The work required to execute it properly often costs more in advisor time and client attention than it returns.

There *is* one legitimate reason to harvest losses: it gives you the flexibility to rebalance your portfolio without triggering tax events. That rebalancing immunity is genuinely useful. But that is not how the benefit is typically sold—and it's not what your advisor is spending three weeks in December doing on your behalf.

| Scenario | Taxable Gain at Sale | Net Result |
|---|---|---|
| Hold through dip, sell at $200K | $50,000 | Same |
| Harvest loss, rebuy, sell at $200K | $50,000 (offset applied) | Same |
| Real benefit (income offset) | $3K/yr @ 17% net savings | ~$510/year |

*Tax-loss harvesting: the math behind the marketing*

## Myth #2: Muni Bonds Are a Tax Strategy

Municipal bonds are practically a rite of passage in the financial planning world. Got a high-income client? Put them in munis. It's become the industry's reflex answer to tax efficiency—and like most reflexes, it bypasses the brain.

Here is the comparison as it actually stands. A taxable corporate bond might yield 5%. After applying the 37% federal rate plus the 3.8% Medicare surtax on net investment income (applicable to high earners above $250,000), you net roughly **2.96%**. A comparable muni bond, meanwhile, yields about 3.5%—tax-free at the federal level, though often still taxed at the state level. So the net advantage is roughly **0.5% per year**.

Half a percent compounded over 30 years is meaningful. Nobody is arguing it's nothing. But here is the real problem: **if you own bonds outside of your retirement account in the first place, you have**

**already made a far larger mistake than muni bonds can fix.** Switching to munis is putting a bandage on a wound that requires surgery.

**Muni bonds are what advisors recommend when they want to look like they're doing tax planning—without actually doing tax planning.**

The real issue is *asset location*—a concept we'll cover in depth shortly. Bonds belong inside retirement accounts where they're sheltered from ordinary income tax. When bonds live outside retirement accounts, the fix isn't to swap them for munis. The fix is to move them where they belong.

## Myth #3: Tax Deferral Is Inherently Valuable

This one is perhaps the most counterintuitive—and the most misunderstood. Tax deferral, meaning contributing to a traditional 401k or IRA to delay paying taxes until withdrawal, is almost universally promoted as a significant benefit. The math says otherwise, at least in isolation.

Consider: you earn $100,000 and contribute it to a traditional 401k. You defer the tax now (let's say 43% combined federal and state) and let the full $100,000 grow at 8% annually for 16 years, reaching $342,000. You then withdraw and pay taxes at that same 43% rate—leaving you with **$195,000**.

Now try the Roth: you pay taxes first, contribute $57,000, let it grow at the same 8% tax-free. After 16 years: **$195,000**. Exactly the same result. Tax deferral, by itself, produces zero additional benefit when tax rates are identical at contribution and withdrawal.

**Tax deferral is only valuable when you can genuinely expect to pay a lower rate at withdrawal than you paid at contribution. Otherwise, it's a wash.**

Where tax deferral *does* matter: if you can realistically drop into a lower bracket in retirement—especially by moving to a state with no income tax, or by managing your withdrawals carefully in the early retirement years before RMDs kick in—the traditional 401k starts to win. The key is that **something else must change.** Deferral alone is not the strategy.

# What Actually Moves the Needle

## 1. Asset Location: The Free Lunch Most Advisors Miss

Asset location is not the same as asset allocation. It isn't about *what* you own—it's about *where* you own it. And getting it wrong is one of the most common and costly mistakes in portfolio management.

The principle is simple: assets that generate ordinary income (bonds, REITs) should live inside tax-sheltered retirement accounts, where that income is protected from current taxation. Growth assets (stocks, equity funds) should live in taxable accounts, where long-term gains are taxed at the much lower capital gains rate—and where a step-up in basis at death can potentially eliminate deferred gains entirely.

In a real client case, simply reorganizing the same holdings across the same accounts—**without changing a single investment**—produced an estimated **$51,000 in tax savings over 15 years** and over **$265,000 in additional wealth over 30 years**, representing roughly 15% more money at retirement from pure location optimization.

**You can add 7% to your lifetime wealth—not by picking better investments, but by owning the same investments in the right accounts.**

| Account Type | Best Assets to Hold | Why |
|---|---|---|
| Taxable (brokerage) | Stocks, equity ETFs | Capital gains rates; step-up at death |
| Tax-deferred (IRA/401k) | Bonds, REITs, high-income assets | Shields ordinary income from current tax |
| Tax-free (Roth) | Highest growth assets | All future growth permanently tax-free |

*Asset location: the same investments, smarter placement*

## 2. Controlling Taxes in Early Retirement

The most overlooked tax opportunity in most Americans' financial lives is the window between retirement and the onset of Required Minimum Distributions (RMDs). In that window—often five to ten years—you have an extraordinary degree of control over your taxable income.

If you retire and do not yet take Social Security, have no earned income, and have built up sufficient cash reserves to cover expenses without selling assets or taking IRA withdrawals, you may be able to bring your taxable income to near zero. At that level, **capital gains are taxed at 0%**, the Medicare surtax disappears, and Roth conversions can be executed at 12% or less—converting what would eventually become high-rate RMD income into permanently tax-free Roth dollars.

This requires planning in advance, not a call from your CPA in April. It means building a cash cushion in the two to three years before retirement, coordinating the timing of Social Security, managing IRA withdrawals strategically, and knowing your bracket boundaries with precision.

**The years just after retirement are the single best tax planning opportunity most people will ever have—and most advisors let them slip by unused.**

## 3. Real Estate: The Last Real Tax Loophole

Investors have understood for generations that real estate is tax-favored. But most people think of it in terms of owning a rental property themselves. What most investors don't realize is that the same tax advantages—particularly depreciation—can be accessed through professionally managed, non-publicly traded real estate funds that pass those benefits directly to investors.

Here is the mechanism: when a real estate fund acquires a property and performs a cost segregation study, it can accelerate depreciation—often recognizing a significant portion in year one. That depreciation offsets the cash flow from the property, meaning investors may receive distributions that are largely or entirely tax-free as received. The key word is "deferred"—the taxes don't disappear, but they are pushed into the future, and the rate at which they eventually arrive is capped.

When the property is eventually sold, depreciation is "recaptured" at a **flat 25% rate—regardless of your ordinary income tax bracket.** If you are in the 37% bracket, this represents a permanent 12-point reduction in your effective rate on that income. And if you hold the property until death, the step-up in basis means the recapture tax is never paid at all.

Compare this to a bond, where there is no equivalent mechanism. Bond income arrives as ordinary income, taxed at your full marginal rate, every year, without exception. Real estate gives you deferral, a capped recapture rate, and a potential step-up. Bonds give you none of those things.

| Investment | Pre-Tax Yield | Effective Tax Rate | After-Tax Yield |
|---|---|---|---|
| Taxable Bond | 5.0% | ~41% (37% + Medicare) | ~2.96% |
| Municipal Bond | 3.5% | ~0% federal | ~3.50% |

| Investment | Pre-Tax Yield | Effective Tax Rate | After-Tax Yield |
|---|---|---|---|
| Non-traded Real Estate | 5–8% | ~25% recapture (deferred) | ~3.75%+ |
| Structured Notes | 5% | ~20% (cap gains) | ~4.00% |
| Equities (stock market) | 8.5% | ~20% (cap gains) | ~6.80% |

*After-tax yield comparison at maximum federal rates (illustrative)*

## 4. Strategic Use of Oil & Energy Investments

One of the most powerful—and least discussed—tax strategies available to high-income investors involves direct participation in oil and natural gas programs. These are not speculative bets on commodity prices. The best-structured programs invest in mature, producing wells where the geology is already known and the cash flow profile is highly predictable.

The tax mechanics are extraordinary. **Intangible Drilling Costs (IDCs)**—typically 70–85% of the investment—are often fully deductible in the year of investment. For a high-income client in the 39% bracket paying nearly $1 million annually in taxes, a $750,000 investment can reduce that year's tax bill by over $300,000. The effective out-of-pocket cost of the investment drops to roughly $435,000 after the government effectively subsidizes the rest.

Additionally, ongoing production income is partially sheltered by a **depletion allowance**—typically shielding around 15–25% of gross income from taxation on a permanent basis. This is not deferral. It is permanent tax elimination.

**Done correctly, a well-structured energy investment can turn a tax obligation into a high-returning asset—with the government bearing a significant share of the cost.**

## 5. Structured Notes: More Tax-Efficient Than Most Bonds

Structured notes are issued by major financial institutions—Bank of America, Morgan Stanley, Citibank—and are essentially custom-designed bonds with a different payoff structure. The key tax advantage: returns from structured notes are often classified as **capital gains appreciation rather than ordinary income**, reducing the effective tax rate from 37%+ to 20% or less.

For a client who would otherwise hold a taxable bond yielding 5%, a structured note with similar economics can deliver a meaningfully better after-tax return while also offering superior downside protection in many market environments. They are not without complexity, but for a substantial fixed-income allocation, they represent one of the most overlooked improvements available today.

## Why the Industry Sticks to the Myths

If these strategies are so available, why don't more advisors use them? The honest answer is the same as it is with bonds: **convenience**. The strategies above require genuine expertise, ongoing attention, and in some cases access to platforms and investments that most large wirehouses simply don't offer.

### 1. It's Easier to Sell Activity Than Results

Tax-loss harvesting is visible. It generates reports, phone calls, and client appreciation. It feels like something is being done. Asset location, by contrast, requires reading a tax return, understanding account structure, and having a conversation that takes time and expertise most advisors don't have or won't take. The industry optimizes for what it can show clients, not necessarily what helps them.

### 2. Alternative Investments Require Compliance Approval

Non-publicly traded real estate funds, oil programs, and structured notes all require additional compliance review at most large firms. Many firms simply don't allow them, or restrict them so heavily that advisors stop recommending them. The path of least resistance is always the stock-bond-muni playbook.

### 3. Most Advisors Cannot Read a Tax Return

This is blunt, but true. Meaningful tax planning requires understanding your client's actual tax situation—their bracket, their exposure to the Medicare surtax, their RMD trajectory, their basis in various accounts. This requires reading a tax return and understanding what it says. Many advisors lack the training to do this, and most planning software does not bridge the gap.

### 4. Change Is Hard and Marketing Is Easy

The investment industry is growing faster than it can train advisors. Legacy firms can rely on brand recognition and slick marketing to attract clients without ever improving their actual product. There is no competitive pressure to move beyond the 401k-and-muni-bond playbook when clients don't know enough to ask for more.

**The industry has confused complexity with sophistication. Real tax planning is not complex to explain—it is just difficult to do.**

## A Summary: What Matters and What Doesn't

| Strategy | Industry Love | Actual Impact |
|---|---|---|
| Tax-loss harvesting | Very High | Low (~$510/yr on $250K) |
| Municipal bonds | High | Low (bandage, not cure) |
| Traditional 401k (alone) | Very High | Neutral without rate change |
| Asset location | Low | High (15%+ more wealth at retirement) |
| Early retirement tax control | Very Low | Very High (0% cap gains possible) |
| Real estate depreciation | Low | High (permanent rate reduction) |
| Energy investment (IDCs) | Very Low | Very High (income reduction, year 1) |
| Structured notes | Low | Moderate-High (better after-tax yield) |

*The gap between what advisors promote and what actually works*

## Conclusion: A Better Way to Think About Taxes

Taxes are the single largest expense most high-income Americans will ever face. Over a lifetime, they dwarf investment fees, inflation, and most market losses. And yet, the financial planning industry treats them as an afterthought—something to be managed at the margins with a few well-worn tools.

The strategies outlined in this paper are not exotic. They are not high-risk. They are what the ultra-wealthy have always done. The difference is not access to secret knowledge. It is the willingness to look at the actual tax code, understand how it works, and build a financial plan that genuinely takes advantage of it.

JFWM does not sell activity. We do not make calls at year-end to tell you we harvested a loss worth $510. We focus on the strategies that move real numbers: **asset location, early-retirement tax management, real estate depreciation, and targeted use of energy investments and structured notes** where appropriate for your situation.

**The era of tax-loss harvesting as tax planning is over—at least for clients who want an advisor who reads their tax return.**

**Schedule a Strategy Call with Shaun (Complimentary)**

*jonesfwm.com/meet-with-shaun | No obligation · 30 minutes · Fee-only fiduciary*

## Disclosures & References


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