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Complete Guide

# High Income Tax Strategy Guide: Keep More When You Earn \$150k+

Once household income moves above 200,000 dollars, tax strategy becomes less about coupon-clipping deductions and more about sheltering marginal dollars that are otherwise exposed to high federal rates, state rates, the net investment income tax, and the additional Medicare surtax. The six moves that matter most are the ones with enough capacity to change the after-tax result: backdoor Roth contributions, mega backdoor Roth features, deferred-compensation elections, a solo 401(k) for real side-business profit, donor-advised fund bunching, and careful use of QBI or real-estate-professional status when the facts actually fit.

## 1. Foundation

High-income taxpayers lose flexibility in subtle ways. Direct Roth IRA contributions phase out, itemized deductions no longer dominate the return for many households, the net investment income tax can add 3.8 percent to passive investment income, and employers start withholding the additional 0.9 percent Medicare tax after wages exceed 200,000 dollars even though the final household threshold depends on filing status. The implication is not that every tactic disappears. It is that generic middle-income advice often produces trivial savings compared with the tax exposed by RSUs, bonuses, K-1 income, or a second income stream from consulting or ownership.

The most effective strategies at high income share two traits: they have enough contribution capacity to matter, and they are repeatable. A backdoor Roth IRA is a small bucket relative to a high salary, but it gives permanent tax-free space every year if handled correctly. A mega backdoor Roth can add tens of thousands more if an employer plan allows after-tax contributions with in-plan conversion or in-service rollover. Nonqualified deferred compensation can move income from a peak earning year into retirement or a later lower-income year. A solo 401(k) attached to genuine side-business

profit creates yet another tax-favored bucket rather than forcing all savings through taxable brokerage accounts.

Charitable strategy changes at high income because routine annual giving often produces no marginal benefit when the standard deduction already covers the return. Bunching several years of giving into a donor-advised fund can create a large itemized deduction in one year while preserving the ability to grant to charities gradually. Business owners and investors also need to understand where QBI and real-estate-professional status can help and where they are often misunderstood. QBI can reduce qualifying pass-through income by up to 20 percent, but income thresholds, wage and property limits, and specified-service-business rules matter. Real-estate-professional status can unlock passive losses, but only with strict hour and participation requirements backed by logs.

At this income level, execution errors are expensive. The pro-rata rule can blow up a backdoor Roth if pre-tax IRA balances are ignored. Deferred compensation adds employer-credit risk if too much is concentrated in one company. A side business created only for deductions without real profit motive can create audit problems instead of planning value. The objective of this guide is not to maximize the number of tactics. It is to identify which of the six high-impact moves genuinely fit your facts and then run them with clean paperwork.

## **2. Step-by-Step System**

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### **Build a high-income tax map**

List every income stream separately: base salary, expected bonus, RSUs or restricted stock vesting, ESPP discount, spouse income, side-business profit, interest, dividends, capital gains, rental income, and charitable giving. Then note which tax rates attach to each one. W-2 wages may face the top ordinary bracket and payroll taxes. Capital gains may face 15 or 20 percent plus the 3.8 percent net investment income tax. Side-business profit may qualify for QBI or solo 401(k) contributions. This map tells you where each strategy can bite. It also reveals timing opportunities, such as a gap year between jobs, a year with lower vesting, or a year when business profit is temporarily depressed enough to make a Roth conversion or charitable bunching more attractive.

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### **Run the backdoor Roth and mega backdoor correctly**

The backdoor Roth IRA only works cleanly if you do not have material pre-tax IRA balances subject to the pro-rata rule at year-end. If you do, evaluate whether those balances can be rolled into a current 401(k) before attempting the strategy. For the mega backdoor Roth, read the actual plan document or benefits summary. You need after-tax employee contributions plus either automatic in-plan Roth conversion or the ability to roll after-tax dollars out while still employed. If the feature exists, the capacity can dwarf the standard Roth IRA. Automate the transaction if possible, and keep every confirmation so basis, conversion timing, and plan-year limits are documented.

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### **Use deferred compensation and side-business plans strategically**

If your employer offers a nonqualified deferred compensation plan, analyze it like both a tax strategy and a credit exposure to the company. Deferring income can make sense when you are clearly in a peak bracket today and expect a lower bracket later, but the money remains subject to the company's creditors. Keep the election amount tied to a real spending plan and diversification plan rather than automatically maxing it. Separately, if you have actual consulting, freelance, or 1099 income, open a solo 401(k). Employer and employee contributions can create substantial deduction capacity on top of workplace savings, but only on genuine net earnings backed by books, invoices, and a profit motive.

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### **Evaluate QBI with real numbers, not slogans**

Qualified business income can reduce eligible pass-through income by up to 20 percent, which is meaningful at high income, but the deduction is not automatic. First identify whether the business is a specified service trade or business, because many professional practices phase out at higher taxable income. Then review the wage and qualified-property limitations if taxable income is above the threshold. Finally, see whether retirement contributions, charitable deductions, or filing-status choices move taxable income enough to preserve more of the deduction. The right answer may be a compensation change, better retirement-plan design, or simply recognizing that the business has outgrown easy QBI treatment.

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### **Use donor-advised funds and real-estate-professional planning carefully**

A donor-advised fund works best when you already give meaningfully and have uneven income. Contribute appreciated shares or bunch several years of cash gifts into one high-income year, claim the deduction once, and then recommend grants to charities over time. For real-estate-professional status, be brutally honest. The tax code requires more than 750 hours and more than half of all personal-service work in real property trades or businesses, plus material participation. High-income W-2 workers often fail the second test even if they own rentals. If a spouse can qualify and the records are excellent, the strategy can unlock passive losses. Without logs, calendars, and credible time records, it is a fantasy, not a tax plan.

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### **Create the annual high-earner playbook**

Decide which elections belong at the start of the year, which need a midyear review, and which are year-end moves. Backdoor Roth contributions can happen early. Mega backdoor payroll settings need benefits coordination. Deferred-comp elections often have strict pre-year deadlines. Solo 401(k) planning belongs with quarterly bookkeeping. Donor-advised fund decisions usually land in the fourth quarter after income is clearer. QBI and real-estate-professional status need a year-end projection before final moves are made. The point of the playbook is to stop treating every December as a fire drill. High-income planning works when the big levers are known in advance and revisited before the year closes.

## **3. Key Worksheets & Checklists**

The right six moves depend on what kind of high income you have. Use these pages to separate salary, equity, business profit, charitable intent, and real-estate activity before

you decide which strategies deserve attention.

## 1. High-Income Opportunity Map

<b>Primary objective</b>	Shelter the highest-taxed dollars first and avoid execution errors that are expensive at high income.
<b>Income sources</b>	Break out W-2 pay, bonus, RSUs, business profit, investment income, and rental activity instead of lumping them together.
<b>Plan features to verify</b>	Confirm whether your employer offers after-tax 401(k), in-plan Roth conversion, and nonqualified deferred compensation.
<b>Side-business capacity</b>	Record expected net self-employment income that could support solo 401(k) contributions or QBI analysis.
<b>Charity and real estate facts</b>	Note annual giving, appreciated securities available for gifting, and whether anyone in the household can credibly meet real-estate-professional tests.

## 2. Execution Checklist

- Check pre-tax IRA balances before making a backdoor Roth contribution.
- Read the employer-plan rules instead of assuming mega backdoor Roth features exist.
- Treat deferred compensation as unsecured company exposure, not just a tax shelter.
- Open a solo 401(k) only for real side-business income with books and invoices.
- Model QBI with taxable-income thresholds, wage limits, and business type in view.
- Use a donor-advised fund when bunching actually creates itemized value beyond the standard deduction.
- Keep hour logs if real-estate-professional status is even on the table.

### 3. Annual Review Calendar

Window	Action	Evidence Complete
Start of year	Set backdoor Roth, mega backdoor, and deferred-comp elections where available	Payroll and account confirmations saved
Each quarter	Update side-business books and projected taxable income	Profit-and-loss statement and tax projection current
Fourth quarter	Review donor-advised fund funding, QBI thresholds, and RSU or bonus timing	Decision memo reflects year-end numbers
Year-end close	Archive contribution records, logs, and plan documents for the tax file	Folder contains all confirmations needed for return prep

### 4. Common Mistakes

#### Ignoring the pro-rata rule

A clean backdoor Roth can become partly taxable if old pre-tax IRA money is still sitting outside an employer plan.

#### Assuming every employer offers mega backdoor Roth features

After-tax contributions alone are not enough if the plan blocks conversion or rollover mechanics.

**Deferring too much into one employer's unsecured promise**

Deferred compensation can help, but concentration risk matters if too much future wealth depends on one company.

**Claiming real-estate-professional status without records**

The hours and participation tests are factual questions, and hand-waving does not survive scrutiny.

## 5. Next Steps

Verify the two or three large-capacity levers actually available to you this year, especially employer-plan features and side-business profit, then ignore the rest until those are set up correctly. High-income strategy is won by executing a few large moves cleanly, not by collecting every tax idea on the internet.

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