

The Physician's Tax Playbook

6 Strategies to Reduce Your Tax Bill on a \$350K+ Income

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Introduction

You spent a decade training to become a physician. You've built a career most people only dream about. And yet, every April, you write a check to the IRS that makes you wonder if any of it was worth it.

You're not alone. As a W-2 physician earning over \$350,000 annually, you're likely in the top federal tax bracket — meaning nearly 37 cents of every dollar you earn goes straight to the government before you ever see it. Add state taxes, Medicare surtaxes, and the Net Investment Income Tax, and the real number is often closer to 45–50%.

Remember: it's not what you make — it's what you keep.

Here's what most physicians don't realize: the problem usually isn't the tax code. It's that the old-school advisor managing your investments has never once asked to see your tax return.

Old-school advisors are great at riding along as your portfolio grows due to market returns. But taxes? That's not where they make their money, so it rarely comes up — if ever. The result is an investment strategy built entirely around returns, with no regard for what you actually keep after the IRS takes its share. Think about that for a moment: the advisor you may be paying \$10,000, \$20,000, or more each year — based solely on how much money you have — has likely never once had a serious conversation with you about reducing your tax bill. Nobody is helping you stop tipping Uncle Sam.

This guide introduces six strategies specifically relevant to high-income W-2 physicians — practical moves that can meaningfully reduce your tax bill, protect your wealth, and help you keep more of what you've worked so hard to earn. Not someday. This year.

WHAT YOUR ADVISOR MAY BE COSTING YOU

\$30K/yr

\$2M Portfolio
avg. annual fees

\$42K/yr

\$3M Portfolio
avg. annual fees

\$65K/yr

\$5M Portfolio
avg. annual fees

Source: *kitces.com* — Average investment advisory fees across portfolio sizes

STRATEGY 1

Direct Indexing — The Tax-Smart Upgrade Most Advisors Never Mention

Most physicians have heard of index funds. They're low-cost, diversified, and a staple of smart investing. But there's a more powerful evolution of that strategy that most old-school advisors never bring to the table: direct indexing.

Instead of buying a fund that tracks an index like the S&P 500, direct indexing means owning the individual stocks that make up that index directly in your account. Your portfolio still behaves like the index — but now you have something an ETF can never give you: the ability to act on individual positions for tax purposes.

Here's a real-world example. In 2020, the S&P 500 returned over 16% — but roughly 40% of its individual holdings were actually down for the year. With an ETF, those losses are invisible to you. With a direct index portfolio, you can sell a losing position like Lowe's, capture that tax loss, and immediately replace it with Home Depot to maintain your market exposure. Same portfolio integrity. Real tax savings.

For a W-2 physician in the top federal tax bracket, this matters enormously. Tax-smart direct indexing can add roughly 1% to a portfolio's after-tax return year after year — and in volatile years, that number can be significantly higher.

Direct indexing was once reserved for investors with much larger portfolios and came with high costs. Technological advances have changed both of those thresholds — and in some cases, a direct index portfolio can actually be cheaper to run than an ETF portfolio, since there are no ongoing fund expenses once the individual stocks are purchased.

It's not what you make — it's what you keep.

STRATEGY 2

The Backdoor Roth IRA — The Move Your Advisor Probably Hasn't Mentioned

A Roth IRA is one of the best wealth-building tools in existence. You contribute after-tax dollars, your investments grow completely tax-free, and you pay zero taxes on withdrawals in retirement. No required minimum distributions. No surprise tax bills at 73. Just tax-free income when you need it most.

The catch? The IRS phases out direct Roth IRA contributions for married filers earning above \$242,000. For most physicians, that door appears to have closed a long time ago.

Or so they think.

The Backdoor Roth is a fully legal, IRS-acknowledged two-step strategy that lets high earners access a Roth IRA regardless of income. You make a non-deductible contribution to a traditional IRA, then convert it to a Roth. No income limit applies to the conversion. That means up to \$7,500 per year — \$8,600 if you're 50 or older — flowing into an account that will never be taxed again. Both you and your spouse are eligible.

A physician who contributes \$7,500 per year for 25 years at an average 8% return could grow that account to well over \$500,000 — every dollar withdrawn tax-free. A traditional pre-tax account with the same balance would generate a six-figure tax bill at withdrawal. The Backdoor Roth eliminates it entirely.

So why hasn't your advisor brought this up? Here's the uncomfortable truth: for an old-school advisor who charges fees based on how much money you have, setting up and executing a Backdoor Roth each year may simply not be worth their effort — even if it's absolutely worth yours.

Think of it like preventive care. Skipping an annual physical doesn't feel consequential in the moment. But the compounding cost of ignored risk shows up later. The same logic applies here.

STRATEGY 3

Tax Location — Putting Your Investments in the Right Buckets

Most physicians focus on what they invest in. Far fewer think about where those investments live — and that distinction can make a significant difference in how much you ultimately keep.

Tax location is the strategy of being deliberate about which investments you hold in which types of accounts. The goal is simple: maximize the tax efficiency of every dollar you have invested.

Think of it across three buckets:

Roth Accounts — Your “Never Taxed Again” Bucket

Contributions go in after tax, growth is tax-free, and distributions are tax-free. This is where you want your most aggressive, highest-growth-potential investments. If those investments perform well, every dollar of that growth will never be taxed again. Health Savings Accounts belong in this bucket too.

Tax-Deferred Accounts — Your IRA and 401(k) Bucket

Distributions here are taxed as ordinary income — meaning at your highest tax rate. For a physician in the top bracket, that's a meaningful drag. These accounts are better suited for lower-growth investments like bonds and fixed income, where the future tax hit is smaller.

Taxable Accounts — Your Individual and Joint Accounts

A common misconception is that because you already paid taxes on the money going in, growth isn't taxed. It is — at capital gains rates. Dividends, yields, and fund distributions are all tax-creation events. Holding high-dividend investments or mutual funds here is one of the most common — and costly — mistakes physicians make.

One final point: before repositioning investments across these buckets, think carefully about your timeframe — not just how long you plan to invest, but when you'll start accessing each account. That answer should drive your tax location decisions.

Lowest Lifetime Tax Bill Wins.

STRATEGY 4

Tax-Loss Harvesting — Turning Market Volatility Into a Tax Advantage

THE COST OF IGNORING TAX DRAG

\$6,474,693

Before-tax portfolio value

\$2,450,135

After-tax portfolio value

62% lost to taxes on a \$100K portfolio held 43 years (1979–2022) | Source: SEI / Parametric Portfolio Associates

Whether you call it “not tipping Uncle Sam,” “it’s not what you make, it’s what you keep,” or what one of our clients calls “not feeding the beast” — tax planning is one of the few areas of investing you can actually control. The market does what it does. Your tax strategy doesn’t have to be left to chance.

Tax-loss harvesting is one of the most effective tools in that strategy — and one of the most underutilized.

The concept is straightforward. When an investment in your taxable account has dropped below what you paid for it, you sell it, capture that loss, and use it to offset gains elsewhere in your portfolio — or reduce your current and future tax bill. Losses can offset both investment gains and, up to certain limits, ordinary income.

The common concern is the wash-sale rule, which prevents you from repurchasing the same investment within 30 days of selling it. But here’s where it gets interesting for ETF investors. The IRS does not consider two similar — but not identical — ETFs to be the same investment. So you can sell a Vanguard Large Cap ETF at a loss and immediately reinvest in a comparable iShares Large Cap ETF. You stay fully invested in the market while capturing the tax loss. No 30-day waiting period. No sitting in cash.

The catch? Tax-loss harvesting done right is a year-round discipline — not an end-of-year scramble. Most old-school advisors glance at this in December. Doing it effectively requires monitoring positions consistently throughout the year, which is why we bring in a dedicated team of outside investment specialists whose sole focus is managing tax-efficient portfolios for our clients.

For a W-2 physician in the top tax bracket, this is not a minor detail. Every dollar of loss harvested is a dollar working for you instead of Uncle Sam.

STRATEGY 5

HSA Investing — The Triple Tax Advantage Most Physicians Leave in Cash

If you're a high-income physician with access to a Health Savings Account, there's a good chance you're underusing one of the most powerful tax-advantaged tools available to you — and there's an even better chance your balance is sitting in cash.

The HSA is what we call the triple crown of investing. Contributions go in pre-tax. Growth is tax-free. And distributions are tax-free, as long as they're used for qualified medical expenses. No other account in the tax code offers all three. Not your 401(k). Not your Roth. The HSA stands alone.

Study after study suggests you should max out your HSA before your 401(k) — assuming you don't tap those funds until retirement and use current cash flow to cover medical expenses in the meantime. The math is straightforward: every dollar in an HSA that grows and is withdrawn for medical expenses will never be taxed at any point. That's an advantage that compounds significantly over a 20 or 30-year career.

Here's the problem. Most physicians contribute to their HSA and leave the balance sitting in cash. The account requires a minimum cash balance, but everything above that threshold can and should be invested. A dollar earning 0% in a money market account inside an HSA is a missed opportunity that will never be taxed again — which makes it one of the most expensive forms of financial inertia there is.

A few things worth knowing that most advisors never mention: you can take HSA distributions for non-medical expenses in retirement without penalty — they're simply taxed like an IRA withdrawal, making the HSA function as a secondary retirement account in the worst case. HSAs are also fully portable — they follow you from employer to employer. And if you're 55 or older, catch-up contributions are available.

Some advisors don't recommend HSAs simply because they don't get paid on them. That's the old-school model at work again. Stop tipping Uncle Sam — even when your advisor has no incentive to help you do so.

STRATEGY 6

True Tax Planning — The Difference Between Reacting and Winning

Here's a number that should stop every physician reading this guide: roughly 90% of clients want their advisor to provide tax planning. Yet fewer than 1 in 3 advisors actually review their clients' tax returns each year.

Read that again. The advisor you may be paying tens of thousands of dollars a year has likely never once looked at your tax return.

For most old-school advisors, tax planning means a conversation sometime in November or December — after capital gains distributions are already locked in, after opportunities to harvest losses during market pullbacks have slipped away. Waiting until year-end to address taxes is like showing up at halftime of a game. You've already missed the key plays. Everything from that point is reactive.

At Forward Thinking Wealth Management, taxes aren't an afterthought. They're woven into the financial planning process every month of the year — and our tax planning process has three distinct layers:

Layer 1 — Annual Tax Return Review

Using dedicated software, we generate a detailed analysis from each client's return, uncovering opportunities and inefficiencies most advisors never see. This is the foundation — but it's largely a rear-view look at what already happened.

It's worth noting that many advisors today have purchased tax analysis software and now consider themselves tax planners. But owning the software doesn't make you a tax expert — any more than having access to WebMD makes you a physician. True tax planning requires the knowledge, credentials, and judgment to act on what the software surfaces.

EA
Enrolled
Agent

Enrolled Agent — The Highest Credential Awarded by the IRS

Dan Johnson pursued this designation because he understands how important — and how powerful — true tax planning is for high-income physicians. It isn't a feature added to his practice. It's the foundation he built it on.

Layer 2 — Forward-Looking Tax Planning

This is where the real work happens. We go line by line through your return, the analysis, and your financial plan to build a personalized, forward-looking roadmap of actionable strategies. It's hands-on, time-consuming, and there's no software shortcut — which is exactly why most advisors don't do it. And critically, we do this in August, when there's still enough time left in the year to act on what we find.

Layer 3 — Tax-Smart Portfolios

For high-income physicians with taxable accounts, we use direct index portfolios built around tax efficiency — combining everything from tax-loss harvesting to strategic asset location into a cohesive, year-round strategy.

When these three layers work together, you stop reacting to your tax bill every April and start controlling it all year long.

It's not what you make — it's what you keep.

The Physician Who Pays the Least in Taxes — Wins

You've spent your career doing everything right. You trained longer than almost anyone. You earn more than most. And yet, if you're like the majority of physicians we speak with, you're likely overpaying on taxes every single year — not because of bad luck, or a bad income, but because nobody on your financial team is doing the work to stop it.

The six strategies in this guide aren't exotic. They're not loopholes. They're straightforward, legal, and proven — and they're available to you right now. Direct indexing. Backdoor Roth contributions for you and your spouse. Strategic tax location across your accounts. Tax-loss harvesting executed year-round, not just in December. Your HSA invested instead of sitting in cash. And a true tax planning process that starts in August, not April.

What stands between most physicians and these strategies isn't complexity. It's an old-school advisor who was never trained to think about taxes, has no financial incentive to do so, and charges you more every year simply because your account balance grew.

Think about that model for a moment. In medicine, would it be acceptable to charge a patient more for the same procedure simply because they earned a higher salary? Of course not. Yet that's precisely how most of the financial advisory industry operates — and most physicians don't question it.

At Forward Thinking Wealth Management, we don't believe your fee should grow just because your wealth does. Our clients — a select group of high-income physicians — pay a single flat annual fee regardless of portfolio size. No percentage-based erosion of your wealth. No conflict of interest between our time and your tax return. Just comprehensive, proactive planning focused entirely on one goal: your lowest lifetime tax bill.

Stop tipping Uncle Sam. You've earned that right.

ANNUAL FEES: TRADITIONAL ADVISOR VS. FORWARD THINKING WM

Portfolio Value	Traditional Advisor (1.4% fee)	Forward Thinking WM (flat fee)
\$1M	\$14,000/yr	\$12,000/yr
\$2M	\$28,000/yr	\$12,000/yr
\$3M	\$42,000/yr	\$12,000/yr
\$5M	\$70,000/yr	\$12,000/yr

Traditional advisor fee assumes 1.4% AUM-based fee. Forward Thinking WM charges a single flat annual fee.

Ready to Find Out What You're Leaving on the Table?

Schedule a complimentary Tax Analysis Call with Dan Johnson, CFP®, EA. We'll review your most recent tax return together, identify the strategies most relevant to your situation, and show you exactly what a true tax planning relationship looks like.

There's no obligation and no sales pitch — just an honest look at whether you're keeping as much of your income as you should be.

» Visit forwardthinkingwm.com to schedule your complimentary Tax Analysis Call

Disclosure

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