

BULLOGIC WEALTH // TAX STRATEGY CASE STUDY

# From a \$634K Tax Bill to a Fully Funded Retirement

Active Trading | Massachusetts | Annual Savings: \$142,674

Case Study | Active Trading | Massachusetts

## AT A GLANCE

TAX BILL BEFORE	TAX BILL AFTER	ANNUAL SAVINGS
<b>\$634,114</b>	<b>\$491,440</b>	<b>\$142,674</b>

<b>Client</b>	James & Carol Whitmore (names changed)
<b>Business</b>	Whitmore Capital Management LLC
<b>Industry</b>	Active Trading — IRS Qualified Trader Tax Status
<b>Location</b>	Massachusetts
<b>Retirement Savings</b>	\$117,250 per year combined household (\$0 prior)

## CLIENT BACKGROUND

James and Carol Whitmore came to Bullogic Wealth after a particularly successful year of active trading. James had retired from his career in engineering but had transitioned into full-time active trading, generating significant short-term capital gains. Carol had also retired and was informally supporting the trading operation with administrative and research work, though she had never been compensated for it.

With no tax strategy in place, the Whitmores were on track to pay \$634,114 in combined federal and state taxes. Their retirement accounts were unfunded. Their deductible business expenses were going unclaimed. Every dollar of capital gains was being treated as passive income with no vehicle to offset it.

## THE CHALLENGE

Active trading income presents a unique tax planning challenge. Capital gains by themselves do not qualify as earned income, which means they cannot be used to fund retirement accounts. Without earned income, there is no Solo 401(k), no employer contribution deduction, and no retirement plan savings of any kind.

Additionally, the Whitmores were operating in Massachusetts where a PTET election was available but required careful modeling. The state's 90% refundable credit structure meant that electing PTET without understanding the net cost could add tax liability rather than reduce it. The trading operation also had legitimate business expenses going entirely undeducted because no business entity existed to claim them.

## STRATEGIES IMPLEMENTED

### Trader Tax Status (IRS Qualified)

Established that James's trading activity met the IRS standard for Trader Tax Status, converting short-term capital gains into ordinary and earned income. This unlocked business entity treatment, the ability to deduct trading-related expenses, and eligibility for retirement plan contributions.

### S-Corporation Election

Established an LLC and filed Form 2553 to elect S-Corporation status, enabling the salary/distribution split, reducing self-employment tax, and creating the W-2 earned income necessary to fund a Solo 401(k).

### Solo 401(k) — Maximized at \$77,500

Set James's W-2 salary at \$186,000 to support a \$31,000 employee deferral plus a \$46,500 employer contribution, maximizing the combined Solo 401(k) contribution at \$77,500 in pre-tax retirement savings.

### PTET Election — Massachusetts

Elected pass-through entity tax at the Massachusetts rate of 5% on qualified income. Despite the 90% refundable credit structure, the \$57,194 federal deduction generated approximately \$22,000 in additional federal tax savings, making the election clearly beneficial.

### Spousal Employment — Carol Whitmore

Conducted a formal reasonable compensation study for Carol's existing administrative role. Established a \$35,000 annual salary and a separate Solo 401(k), adding \$31,000 in additional pre-tax retirement contributions through the age-based catch-up provision.

## TAX SAVINGS — STEP BY STEP

STRATEGY LAYER	TAX BILL	SAVINGS AT THIS STEP
No Strategy (Baseline)	\$634,114	—
S-Corp Election + Business Expense Deductions	\$520,418	\$113,696
+ PTET Election (Massachusetts)	\$504,975	\$15,443
+ Spousal Employment + Combined 401(k)	\$491,440	\$13,535
<b>Optimized Tax Bill</b>	<b>\$491,440</b>	<b>\$142,674 saved</b>

## RETIREMENT SAVINGS IMPACT

SCENARIO	JAMES 401(K)	CAROL 401(K)	COMBINED ANNUAL
No Strategy	\$0	\$0	\$0
<b>Optimized Strategy</b>	<b>\$77,500</b>	<b>\$31,000</b>	<b>\$117,250</b>

## THE OUTCOME

The Whitmores went from a \$634,114 tax bill with no retirement savings to a \$491,440 tax bill with \$117,250 going into tax-deferred retirement accounts every year.

The \$142,674 in annual tax savings is not a rounding error. At \$117,250 per year going into a tax-deferred account, the Whitmores are building retirement wealth at a pace that was simply not possible without the right structure in place. The strategy paid for itself many times over in the first year alone.

**Disclaimer:** This case study is based on an actual tax plan developed by Bullogic Wealth for a real client. Client names and identifying details have been changed to protect privacy. The results shown reflect the specific facts and circumstances of this client's situation and should not be regarded as tax advice or relied upon as a guarantee of similar outcomes. Tax laws are subject to change. Individual results will vary. This information is for educational purposes only. Consult a qualified tax professional before making any tax planning decisions.