0% CAPITAL GAINS STACKING & TAX-WATERFALL SPREADSHEET

Annual Cash Flow Architecture, Standard Deduction Absorption & Subsidy Optimization.

1. THE 2026 STATUTORY STACKING ORDER (MFJ $120,000 BASELINE)

*** Tier 1: Standard Deduction Absorption ($32,200)**
Execute annual pre-tax 401(k)/Traditional IRA to Roth conversions up to the $32,200 MFJ standard deduction limit. Generates ordinary income on paper, completely offset to $0 taxable income. Defuses RMD tax liability decades in advance.

*** Tier 2: Cost Basis Return from Taxable Brokerage ($40,000)**
Liquidate index fund shares using specific identification (Specific ID). Return of purchase cost basis is completely non-taxable under IRC Section 1001 and generates zero MAGI for health subsidy purposes.

*** Tier 3: 0% Preferential LTCG & Qualified Dividends ($47,800)**
Realized long-term capital gains stack directly on top of ordinary income. For 2026 MFJ, the 0% capital gains ceiling is $96,700 of taxable income ($128,900 gross income including deduction). All $47,800 is taxed at 0.0% federally.

2. SIDE-BY-SIDE MECHANICS: W-2 SALARY VS. ASSET CASH FLOW

Tax / Cash Component	W-2 Labor Wage ($120k)	Asset Architecture ($120k)
FICA / Payroll Tax (Social Security & Medicare)	$9,180 (7.65% mandatory)	**$0.00 (exempt from FICA)**
Gross Income Subject to Federal Tax	$120,000	**$80,000 ($40k basis exempt)**
Basic Standard Deduction (MFJ 2026)	-$32,200	**-$32,200 (offsets Roth conversion)**
Taxable Ordinary Income	$87,800 (taxed at 10% & 12%)	**$0.00 (all ordinary covered)**
Long-Term Capital Gains & Dividends	$0.00	**$47,800 (taxed at 0.0%)**
Net Federal Income Tax Owed	$10,132	**$0.00 (0.0% effective rate)**
Total Mandatory Federal Drag (FICA + Income)	$19,312 (16.1% tax drag)	**$0.00 (0.0% tax drag)**

3. EXECUTION PROTOCOL & CRITICAL PLANNING SAFEGUARDS

☐ **ACA Health Subsidy (CSR Silver Plan Arbitrage)**

Modified Adjusted Gross Income (MAGI) includes Roth conversions, dividends, and capital gains (excluding return of basis). Keep MAGI between $42,000 and $62,000 (200% to 300% FPL) to qualify for $12,000 to $18,000 in annual premium tax credits and reduced cost-sharing deductibles.

☐ **State Income Tax Disconnect**

Federal 0% LTCG rates do not automatically carry over to state tax returns. States like CA and NY treat capital gains as ordinary income (up to 9.3%+). Zero-tax states (TX, FL, WA, NV, TN) fully preserve the $0 combined tax liability.

☐ **Specific Identification Lot Accounting (SpecID)**

Never liquidate taxable holdings under Average Cost. Instruct your brokerage (Fidelity, Schwab, Vanguard) to use Specific Identification so you can target high-basis shares to minimize realized capital gains when managing MAGI thresholds.

☐ **Defusing the Pre-Tax RMD Time-Bomb**

Never coast purely on taxable cash without converting pre-tax IRA/401(k) accounts. Leaving tax-deferred balances untouched until age 73/75 causes compound growth to force massive mandatory distributions into high marginal brackets and trigger Medicare IRMAA surcharges.

☐ **Net Investment Income Tax (NIIT) Buffer**

The 3.8% NIIT surtax triggers at $250,000 MAGI for MFJ ($200,000 single). A $120,000 spendable cash lifestyle sits more than $120,000 below this threshold, ensuring 0% investment tax exposure.