



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.