

7 Tax Strategies for *Tech Professionals* in Silicon Valley

A Tax Optimization Guide for High-Net-Worth Tech Professionals in Silicon Valley
Presented by Pesta & Pesta Wealth Management



Executive Summary

For high-earning professionals, particularly those in the technology sector with complex compensation structures (like **Restricted Stock Units (RSUs)**), standard tax deferral is often insufficient. The true objective of financial planning is not merely to defer taxes, but to reduce your lifetime tax, allowing wealth to compound efficiently.

This white paper outlines seven actionable tax and wealth building strategies, combining asset location, advanced investment strategies, real estate, optimized retirement contributions, and strategic charitable giving to help families protect and grow their multi-generational wealth.



"Reducing your lifetime tax bill, therefore, should be the true goal."

– DEREK PESTA

01

The "Garden" Method: Strategic Asset Location

Asset allocation dictates what you invest in, but asset location dictates where those investments live. Placing the right assets in the right tax buckets is critical for optimizing after-tax returns.



Taxable Accounts (The Redwood Trees): Includes trust, individual, and joint accounts.

These assets should be left alone to grow for the long term to qualify for favorable long-term capital gains rates.

Ideal Investments: Municipal bonds, non-dividend growth stocks, private equity, venture capital.



01

Strategic Asset Location (Cont'd)



Tax-Deferred Accounts (The Greenhouse):

Includes 401(k)s and traditional IRAs. The "greenhouse" traps heat (taxes) until distribution, making it ideal for investments that generate regular, taxable income.

Ideal Investments: Corporate bonds, mortgage-backed securities, and treasury bonds.

Tax-Free Accounts (The Potted Plants):

Includes Roth IRAs and Health Savings Accounts (HSAs). Because these accounts grow completely tax-free, they should house your highest-growth potential assets. You can "repot" or sell them without taxable consequences.

Ideal Investments: High-growth stocks, alternative investments, dividend-paying stocks, or assets like cryptocurrency.



01

Strategic Asset Location (Cont'd)

Garden Method



TAX-FREE GROWTH
(Roth IRA, HSA)



TAX-DEFERRED SHELTER
(401k, Traditional IRA)



TAXABLE INVESTMENTS
(Brokerage, Trust)



02

Tax-Loss Harvesting & Tax-Aware Hedge Funds



For professionals vested in highly appreciated company stock (e.g., Apple, Nvidia), diversifying a concentrated position often triggers significant capital gains taxes.

The Strategy: Tax-loss harvesting should be a year-round activity, not just a year-end scramble. By utilizing long/short SMAs and tax aware hedge funds, investors can intentionally harvest losses to offset large capital gains & can have ordinary losses that offset ordinary income, allowing for continued portfolio growth.



03

Real Estate Tax Advantages & Market Insights



Insights provided by Milana Ostroy, Bay Area Real Estate Broker (November, 2025)

The Silicon Valley real estate market remains highly competitive, particularly in the luxury sector (\$5M+), driven by AI sector wealth and RSUs. However, strategic opportunities remain for investors.



03

Key Opportunities in Real Estate (November, 2025)

1. **"Value-Add" Properties:** Move-in-ready homes are selling at a 20-25% premium. Purchasing cosmetically dated homes requires less capital upfront, faces less buyer competition, and ultimately results in a lower property tax base.

2. **Accessory Dwelling Units (ADUs):** Adding an ADU increases usability and property value. Some municipalities (like San Jose) now allow ADUs to be sold separately from the main house.

3. **Generational Purchasing:** Buying properties now to rent out (generating income and tax write-offs) with the intention of passing them to children or using them as a retirement downsizer later.



03

Real Estate Professional Status (REPS)

If a spouse exits a W-2 role, they can transition into managing family rental properties to qualify for Real Estate Professional Status (REPS).

Requirements: Requires at least 750 hours of material participation per year (roughly 15 hours per week).

The Benefit: Allows you to turn "passive" real estate depreciation losses into "active" losses. These losses can then be used to offset a spouse's high W-2 ordinary income.

Note: REPS is a federal tax benefit; the state of California does not recognize this status for state taxes. Furthermore, without REPS, passive real estate losses cannot be deducted against W-2 income if modified adjusted gross income exceeds \$150,000.



04

Maximizing the Mega Backdoor Roth 401(k)

Many professionals simply stop contributing to their 401(k) once they hit the employee deferral limit (\$23,500 in 2025). However, the IRS allows a much higher maximum total contribution.

2025 IRS Maximum Limit: \$70,000

The Formula: \$70,000 - [Employee Contribution + Employer Match] = **Available After-Tax Space.**

The Strategy: Many large tech companies offer plans that allow you to fill that remaining gap (often \$30,000+) with after-tax contributions, which can then be immediately converted to a Roth 401(k) or Roth IRA. This allows large amounts of capital to grow tax-free.



05

Next- Generation Planning: 529 to Roth IRA Rollovers



Recent legislative changes have introduced a powerful new way to help ensure unused college savings do not go to waste. If a child finishes college and has funds left in their 529 plan, those funds can now be rolled over into a Roth IRA for that beneficiary, jump-starting their tax-free retirement growth.

Lifetime Limit: \$35,000 total per beneficiary.

Annual Limits: Rollovers are subject to annual Roth IRA contribution limits (\$7,000 in 2025). To move the full \$35,000, it must be done over several years.

Holding Periods: The 529 plan must have been open for at least 15 years, and contributions made in the last 5 years are ineligible for this rollover.



06

Strategic Roth Conversions During Low-Income Years



Life events such as a **layoff, taking a sabbatical, or launching a startup**—often result in a temporary drop in ordinary income. Furthermore, broader economic shifts might cause stock market downturns.

These "lemons" offer the perfect "lemonade" opportunity: **Roth Conversions.**

By converting funds from a traditional, tax-deferred 401(k) to a tax-free Roth IRA during a low-income year, you pay taxes at a significantly lower bracket (sometimes 0%). If this is done while the market is down, you convert more shares at a discount. When the market recovers, 100% of that rebound growth occurs entirely tax-free.



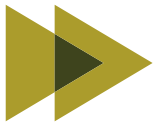
07

Advanced Charitable Giving Strategies

For the charitably inclined, giving cash is often the least tax-efficient method. Consider these advanced alternatives.

Strategy	Ideal Candidate	Key Tax Benefit
Qualified Charitable Distributions (QCDs)	Retirees aged 70.5+	Transfer funds directly from an IRA to a charity. Satisfied RMDs and excludes the distribution from taxable income entirely (up to \$108,000/yr)
Donating Appreciated Securities	Tech workers with RSUs	Donate highly appreciated stock held >1 year. You bypass the capital gains tax entirely and receive a full fair-market-value tax deduction.
Donor Advised Funds (DAFs)	Those wanting to give over time	Contribute appreciated stock to a DAF for an immediate tax deduction (up to 30% of AGI), while retaining the right to distribute the funds to charities gradually over future years.
Charitable Remainder Trusts (CRTs)	High-net-worth (\$1M+ to donate)	Donate highly appreciated assets to a trust, receive a partial upfront deduction, bypass immediate capital gains, and receive a steady income stream for life/a set term.





Ready to talk?
Contact us today!

Conclusion

True wealth building requires a proactive, forward-looking approach to taxation, real estate, and asset structuring. Pesta & Pesta Wealth Management, a third-generation firm, specializes in creating these synergies. For high-net-worth families, specialized investment offerings exist specifically designed for capital gains deferral and ordinary income tax optimization (available to Accredited Investors and Qualified Purchasers, respectively).

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