
TAX SYSTEMS / RECOGNITION ENGINEERING

Capital Gains Architecture: *When* Becomes How Much

The marginal dollar is a story told by basis, character, brackets, and clocks—stop rehearsing only the federal long-term label.

SYSTEM ARCHETYPE 031

Capital Gains / *Recognition* /

Capital gains tax architecture is the discipline of sequencing recognition across accounts, entities, and years. It sits downstream of

asset location, tax-loss harvesting, three-bucket policy, and system sensitivity—because the law taxes events, while your life taxes mistakes.

1. Recognition, Not *Fust* Rates

Capital gains tax architecture is the engineering of *when* gain becomes taxable: holding periods, lot identification, character (short vs. long), and how ordinary income, NII, and state rules stack on the same dollar. The headline federal bracket is one line in a multi-page story.

Pair timing decisions with asset location and tax-loss harvesting so recognition lands in the wrapper where law and policy can actually use it.

"The IRS does not tax your thesis; it taxes events you can document—or cannot."

2. Founder and *Equity* Edges

QSBS, AMT, ISO disqualifying dispositions, and early exercise windows are where spreadsheets meet regret. [System sensitivity](#) matters: a small change in holding clocks or ordinary income can flip the optimal exit month.

3. Installment, Charitable, and *Sequence*

Installment sales, charitable bunching, and gain deferral tools are not loopholes; they are scheduling levers. Each has second-order basis and rate effects—see [second-order effects](#) before you celebrate the first line of tax saved.

EXIT MEMO (ONE PAGE)

01

Lots and basis evidence

Spec ID, corporate action history, screenshots—reconcile custodian to internal ledger before you sell.

02

Character and clocks

Short vs. long, collectibles if relevant, ordinary wedges from ISOs
—map to brackets and NIIT.

03

State and payment calendar

Conformity, estimates, safe harbors—calendar cash for tax, not
only for champagne.

04

Pre-mortem with inversion

List three ways this exit blows up; assign one mitigation each
before you wire.

4. Compliance as *Culture*

Sloppy memos turn alpha into entropy: amended returns and marital stress.
Version decisions like code: owner, date, assumption set.

5. Draw the *Loop*

Tax interacts with behavior. Sketch recognition feedback with causal loop diagrams so you see how selling funds lifestyle creep that balancing loops defend.

Build the *lattice*, not the legend.

Return to the Reading hub for essays, tools, and the rest of the 100-topic map.

OPEN READING HUB

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