

THE IMPORTANCE OF TAX PLANNING

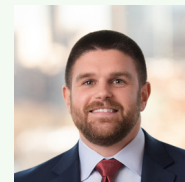
Taxes are one of the largest annual expenses you pay, but in all likelihood they're often only discussed around the filing deadline in April. We believe it's important to plan ahead to avoid the dreaded call from your accountant informing you that you owe money and may have an underpayment penalty. Conversely, you may receive a happier call, informing you that you're receiving a large refund. This may feel better, but it's important to note that all you've done is grant the federal government an interest free loan through your estimated payments and withholdings. While it's difficult to match your tax liability precisely, there are some common items to think about now and avoid major surprises next tax season.

Withholding/Estimated Taxes

- For recently retired individuals, it's important to coordinate estimated tax payments with your accountant since you'll no longer have withholding from your paycheck. This is especially important for individuals who are becoming more reliant on their portfolio to supplement income.
- For those still working, you should analyze your current withholding and see if there's an opportunity to adjust. You should consider adjusting after changes such as a raise, marriage, or having a child.
 - » Given the increase in tax deductions from the One Big Beautiful Bill Act (OBBBA), you may be able to reduce your withholding and increase your take-home pay starting in 2026.

One-Time Events

- **Home sale:** Ensure that you maintain receipts for all capital improvements you've made to your home. Providing them to your accountant can increase the cost basis of your home and help to avoid capital gains taxes.
- **Change in marital status:** If you get married at any point during the year, you can file jointly for the entire year. Joint bracket floors are higher, but you also need to consider dual incomes and investment earnings in your planning.
- **Large bonus or other income:** Review your pay stub to ensure your employer has withheld the proper amount. If not, set aside sufficient assets in a secure investment to cover the upcoming tax liability.
- **Equity compensation:** Restricted stock units (RSUs) are generally taxable upon vesting, while incentive stock options (ISOs) and non-qualified stock options (NSOs) are generally taxable upon exercise. If exercising the options, it's important to understand the broader tax implications and avoid unintended increases in taxable income.



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Portfolio Activity

- It's important for retirees to update their accountant throughout the year on realized capital gains to ensure they're adjusting estimates if needed. Tax-loss harvesting can be done proactively throughout the year to help reduce capital gains.
- Many active mutual funds pay year-end capital gain distributions, regardless of whether you sell the fund. These distributions can be in excess of 10%, creating an unforeseen tax liability at year-end that is difficult to offset. Investors should consider their asset location and explore holding less tax-efficient assets in tax-deferred accounts.
- Money market yields have been elevated for a number of years, leading to more taxable interest for investors. It's important to review positioning and understand if it makes sense to switch to tax-free municipal securities.
- Required minimum distributions (RMDs) force money to come out of your IRA each year as you age. This directly increases your income and can impact your eligibility for certain deductions and credits, and increase Medicare premiums. We recommend that you review your tax withholding each year and also consider qualified charitable distributions (QCDs) to reduce the taxable amount of the RMD.

Charitable Giving

- QCDs from your IRA (if over 70.5) are a great way to donate to charity. Custodians have historically reported these distributions as taxable on 1099-Rs, making it imperative that you save records from your donations and make your accountant aware when filing taxes. Starting in 2026, the IRS is introducing a new code for 1099-Rs to hopefully enhance the accuracy of QCD reporting.
- The standard deduction has greatly increased, creating a higher hurdle for itemizers. If you end up taking the standard deduction, your charitable gift may not be deductible. You should consider bunching charitable gifts into a single year to ensure the deduction will help you itemize.
- It's easy to donate cash to charity, but selling securities to do so eliminates part of the benefit since you're paying capital gains taxes. You should instead consider donating appreciated securities directly to the charity or use a Donor Advised Fund.

We encourage you to review your 2025 tax return and take lessons into 2026. There's no simple way to eliminate taxes, but thoughtful preparation can at least mitigate them and set you up for success by next April 15. We believe coordination between advisors and accountants is paramount, especially with a constantly changing tax law. That coordination is the catalyst for avoiding a large payment at the deadline, or even a large refund.

Common Tax Deductions and Planning Opportunities:

- **Charitable donations:** Starting in 2026, you're allowed an above the line deduction of \$1k per individual (\$2k per couple) even if you don't itemize.
- **529 contributions:** Many states offer a state tax deduction. Visit [529 State Tax Calculator](#) to see if you're eligible.

- **Enhanced senior deduction:** \$6,000 per individual (\$12,000 per couple) can be deducted for those 65 and older. Phase out begins at \$75,000 of modified adjusted gross income (MAGI) for single filers (\$150,000 if married).
- **Carryforward capital losses:** Losses can be carried forward indefinitely and can offset up to \$3,000 in ordinary income per year.
- **SALT (state and local taxes) deduction:** The cap has been lifted to \$40,000 for those with MAGI of \$500,000 or less.
- **Medical deductions:** You must itemize to take a deduction, but any qualified medical expenses over 7.5% of your adjusted gross income (AGI) can be deducted.

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