



Start of Year Tax Planning

Tax planning has traditionally been slotted as a year-end exercise. We believe it is an ongoing process when, in fact, it is at the start of the year that most effective tax planning can be accomplished. Setting up your portfolio in a way that considers the tax implications allows the planning to do its work for the entirety of the tax year.

Here are a handful of the tax planning ideas we recommend our clients consider early in the year.

Tax Loss Harvest Managed Accounts

If part of your portfolio is set to track a particular index, we favor using separately managed accounts (an “SMA”) for this purpose. SMAs can be structured in a way to track any number of targeted indices; US large cap, US small cap, international markets etc. Structured as an SMA versus using an index fund or ETF allows the account to harvest capital losses throughout the year. Starting this account early in the year would mean that more losses could be harvested in a particular year. This may be especially valuable for those taxpayers that invested in qualified opportunity zones since those deferred capital gains all need to be recognized in December 2026. The losses accumulated in the SMA accounts can help offset those gains.

Fixed Income Holdings – Both Direct and Through Funds

It is always important to review your fixed income portfolio and make sure you achieve the best **after-tax return** from the fixed income holdings. In doing this analysis the following tax treatment is relevant:

	Federal	State
CDs/Corporate Bonds	Taxable	Taxable
Treasury Bills/Bonds/Notes	Taxable	Not Taxable
Munis - out of state	Not Taxable	Taxable
Munis - in state	Not Taxable	Not Taxable

If you are investing through a mutual fund or money market fund, it is important to investigate how the particular fund will be taxed. There are a number of funds with misleading names using “US Government” in their name but are in fact investing in synthetic securities that are fully taxable on both the federal and state tax returns. For municipal bonds funds you need to look at the state specific holding level and also be aware that some of the funds hold bonds that are taxable for AMT purposes.

Donor Advised Funds

We recommend all charitable giving be made out of a donor advised fund (“DAF”). These can be easily set up at your brokerage firms. Donating appreciated stock, especially at a time like this when the market is at a nice value level, is the most tax efficient way to initially fund the DAF. All charitable giving for the year should be made out of the DAF. Using a DAF ensures that you don't lose track of charitable giving throughout the year and that an important tax deduction is not lost at the time we prepare your tax return.

Early Funding of Retirement Accounts

For those that are self-employed and contribute to a retirement account, there is no reason to wait until the end of the year to fully fund this account. Since one of the major benefits of a retirement account is the accumulation of tax deferred earnings, the earlier you can put the money to work the better. Since the level of contribution is based on where your self-employment income totals for the year, there is a risk of over funding, which can be a major hassle to correct. Therefore, we recommend a conservative contribution for the 2026 tax year early in the year.

Gifts and 529 Funding

Similarly, for those that are making gifts to their children or other family members for estate or other planning purposes. We recommend those gifts be made early in the year. The annual gift limit for 2026 did not change and remains at 19,000 per year.

As always for those with young children we recommend funding 529 accounts and also considering doing a “super funding” . Super funding allows one to make a one-time gift of up to \$95,000 (5x the annual exclusion).

Equity Compensation – ISO Exercise

For those clients that have equity grants as part of their overall compensation package, early in the year is typically the time that you want to consider exercising and holding any incentive stock options (“ISOs”). The reason for exercising early in the year is twofold. First under the assumption that the stock will increase in value as time passes, early in the year is the time where there is a lower spread between the exercise price and the market price of the stock. This mitigates the exposure to the alternative minimum tax (“AMT”). Secondly by exercising before April 15th, you are able to satisfy the one year holding prior to April 15, 2027, when any AMT may be due as a result of the exercise.