EXPERT
CONTRIBUTOR

2026

Year-End Tax Planning

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I was skeptical when my grandparents would say that time goes by faster as you get older. They were absolutely correct! Before long we will be planning our holidays and visiting with family and friends.

However, this is a great time to review the year so far and consider tax planning strategies that may benefit you for 2026 and years to come.

Deferring Income

• Defer income, including year-end bonuses, until next year, especially if you anticipate being in a lower tax bracket. Even if you are in the same tax bracket, you can hang on to the funds to cover the related tax liability, and benefit from investing, for another year before remitting the money to the government.

• Contribute as much as possible to your employer's retirement plan (401(k), 403(b), or similar). Even if you are unable to defer the maximum, try to contribute at least enough to receive any match your employer offers to receive this "free money."

• Absent an employer-sponsored plan, if you have earned income, you may be able to invest in a traditional IRA or Roth IRA. You may also be able to contribute to a spousal IRA if your spouse has little or no earned income.

• If you are planning to sell an investment at a gain, it may be best to wait until after the end of the year to delay the related tax liability another year. Further reduce your tax bill by taking advantage of lower long-term capital gains rates for investment assets you've owned for at least twelve months.

Sheltering Income

• Consider tax loss harvesting if you have investments in a loss position that you no longer desire to own. By selling before year-end, you can offset other capital gains with these capital losses, plus deduct up to $3,000 against ordinary income. Any excess losses can then be carried forward to reduce taxes in future years.

Maximizing Deductions

• If you claim itemized deductions, pay your state fourth quarter estimated tax payment in December, instead of waiting until the January 15th due date next year.

• Medical expenses are a deductible itemized deduction to the extent they exceed 7.5% of your adjusted gross income for the year. You may be able to "bunch" two years' worth of expenses into one tax year, thereby benefiting from having higher itemized deductions in the year of bunching and then claiming the standard deduction in opposite years.

• Maximize your employer's pre-tax medical benefit plan, such as a Health Savings Account or Flex Spending Account. This allows you to effectively get a deduction for medical expenses by setting aside a portion of your wages on a pre-tax basis. Use these funds to pay or to reimburse yourself for qualifying medical expenses.

Gifting and Donations

• During 2026 you may gift up to $19,000 in cash and/or assets, or a combined value of $38,000 when "split" with your spouse, per recipient. Any future income on these funds will



be shifted to the recipient and taxed at their individual tax rate, which may be lower.

• On top of the federal limit, you can increase gifts by directly paying qualified medical or educational expenses for your donee. There is no limit to the amount you can pay under these two exceptions, and the funds escape federal gift tax.

• If you are charitably inclined, consider donating appreciated assets instead of selling them and donating the proceeds. By doing so you avoid paying capital gains tax on the sale, the charity receives a larger benefit, and you get to deduct the full market value of the asset.

• Consider Qualified Charitable Distributions (QCDs) if you are age 70½ or older. Taxpayers are allowed to donate up to $111,000 in 2026 when the transfer is made directly by the IRA custodian to a qualified charity. This counts toward your RMD requirement for the year, and avoids taxes on otherwise taxable distributions.

• 529 savings plans accumulate funds for higher education expenses. Beginning in 2026, these funds can also be used to cover up to $20,000 annually for certain K-12 expenses. Although the IRS does not set a limit on contributions, they are considered gifts for federal tax purposes, subject to the annual limits previously mentioned. Also, keep your state's 529 tax deduction or credit threshold in mind and any state-specific lifetime maximum cap.

Additional Considerations

• Revisit employee benefits that may not roll over from one year to the next such as health care or dependent care Flexible Savings Accounts (FSAs) and paid time off, depending on your employer's policy terms.

• Take any required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans, generally by December 31st if you are age 73 or older, to avoid steep penalties. Special rules may apply if you are still working.

• Consider any opportunity for a Roth IRA conversion. Transferring funds from a pre-tax individual retirement account (IRA) into an after-tax Roth IRA, ideally during a low(er) income year, will shield future growth from tax and qualified withdrawals will be tax free. This reduces your lifetime tax burden and eliminates risk related to tax rate increases on future withdrawals.

Most of these strategies must be completed by the last day of the year, so timing is important. Keep proper documentation, including donation acknowledgments, brokerage confirmations, etc. to support your position if ever challenged by the IRS. Further, all strategies should consider your entire tax picture to avoid unintended consequences.

Additional strategies may be available for those who run a business such as opportunities with retirement plans, accelerating depreciation, deducting health insurance, employing your children and more.

We are happy to answer your financial questions, walk through the financial and non-financial decisions surrounding your stage of life and help you to achieve the goals you have. Give us a call at (217) 441-2200 or visit us online and check out the free resources available at www.MySoundPlan.com.





