

YEAR-END TAX PLANNING

Tax Deadlines and Distribution Season Are Approaching. Are You Ready?

The waning summer season marks a return to busier fall schedules, and at RWA, we're ramping up our year-end planning efforts. While we view tax planning as a year-round activity, the remaining months of 2026 offer the opportunity to make adjustments before distribution season and December deadlines.

After several strong years for stocks, many taxable accounts are likely to carry a bill that hasn't come due. What you owe depends in part on when and how it's paid. Let's look at a few scenarios and some of the options available.

What a Strong Run Leaves Behind

Extended gains can change a portfolio as much as a trade, just over a longer timeline.

Allocations drift toward whatever has performed best, so an investor drawing retirement income may hold more equity exposure than the plan called for. Winning positions grow larger and laggards smaller.

That concentration can be masked, depending on how your portfolio is structured. A long-held position, an inherited holding or shares from a former employer may overlap with mutual fund or ETF holdings, which means an investor who feels diversified could be leaning on the same companies in more than one place.

Correcting this typically requires trading, and selling now may carry a higher cost than it would have a few years ago. It's the paradox of a growing portfolio: Gains can lift your spirits, but the tax bill that comes with them can be painful to pay.

How You Sell Matters

Which shares you sell is a choice, though many investors may not realize it.

Accounts often default to selling the oldest shares first, and those tend to carry the lowest cost basis and the largest gain. Identifying specific tax lots and selling higher-basis shares can reduce the tax owed on the same dollar amount of proceeds. This factors into our decision-making when we trim client positions throughout the year, but investors going it alone may miss this subtlety.

Losses are worth hunting for, too. Individual holdings within a diversified taxable portfolio can be down even when the index is up, and you may still have unused capital loss carryforwards from earlier years. (Trading within tax-deferred accounts like IRAs and 401(k)s does not generate short- or long-term capital gains.)

Mind the Wash-Sale Rule

The wash-sale rule is an easy one to run afoul of if you're looking to harvest losses or avoid taxable distributions toward the end of the year.

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A loss is disallowed if you buy the same or a substantially identical security within 30 days before or after the sale. That's a 61-day window, not a month afterward, and it applies across accounts, including a spouse's.

This mistake could create tax headaches instead of a lower tax bill. Automatically reinvesting dividends into a fund or stock is a common way to violate the wash-sale rule by accident.

When To Take Gains, and When To Leave Them

Whether to realize a gain often has less to do with the position than with the year you're in.

The stretch after employment ends but before required minimum distributions begin gives many retirees more control over taxable income than they will have at any other point. That control can make a given year a good one to realize gains. But the room in any year is finite, and other options, like a Roth conversion, might be better in tune with your long-term plans.

There is also a case for patience. Appreciated assets held for life currently pass to heirs with a stepped-up basis, meaning the gain may never be taxed. For someone who doesn't need the proceeds and intends to leave the position to family, holding can be the most tax-efficient path—provided the estate plan assumes it and the concentration risk is tolerable in the meantime.

Spreading the Liability Across Two Years

If you do need to rebalance a position, but it carries a large unrealized gain, there's often no reason to take it all at once.

Selling part in December and the rest after the calendar turns divides the liability across two tax years. That can keep income below triggering thresholds, such as the point above which the additional net investment income tax applies, the level where a higher capital gains rate goes into effect, or hitting a level that raises your Medicare premium surcharges when they're set two years later.

For large positions with low basis, other approaches may allow for diversification without triggering the full gain at once. Those are worth a conversation with your advisory team.

Giving Shares Instead of Cash

Charitable giving is one strategy that can help reduce tax exposure for positions with large gains.

Donating appreciated shares rather than cash results in two things: The gain is never realized, and the deduction is generally full market value, subject to applicable limits. It also reduces a concentrated position without a taxable sale.

Two rules changed for 2026. Investors who itemize may deduct only the portion of their giving that exceeds 0.5% of their contribution base, which for most taxpayers is the same as adjusted gross income. The benefit of itemized deductions is also now limited to 35 cents per dollar across all itemized deductions for those in the top bracket. Both rules favor concentrating several years of intended giving into a single year.

For anyone 70 ½ or older, a qualified charitable distribution from an IRA is excluded from income and isn't subject to that floor.

If this option appeals to you, note that transferring securities to a charity or donor-advised fund can take weeks, and sponsors often set deadlines ahead of Dec. 31.

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The Hidden Tax in Some Mutual Fund Positions

Mutual funds distribute realized capital gains to shareholders in November and December. You can owe tax on these distributions even without a triggering sale, and buying into a fund shortly before the record date can mean inheriting a tax bill for gains you had no part in earning. This is why our team checks distribution estimates before adding to fund positions for clients late in the year.

Tax Planning Is Year-Round, Not Seasonal

The items above are framed around year-end because that's when many of the deadlines fall. The thinking behind them isn't seasonal.

Cost basis, holding periods, bracket capacity and the tax consequence of a withdrawal are factors our teams weigh as trades are placed and distributions are made throughout the year. It's our goal to reduce your tax burden when possible within the context of your wealth plan, no matter when we act.

That's why our advisors, client officers and portfolio managers work alongside our in-house tax team, modeling these decisions against your portfolio and your long-term plan rather than treating tax as something reconciled each spring. Being able to review a prior-year return can help, as it allows us to search for carryforwards, filing status, income patterns and charitable history that shape which strategies may apply.

If you'd like to review your taxable holdings before year-end options narrow, your RWA team is here to help.

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