

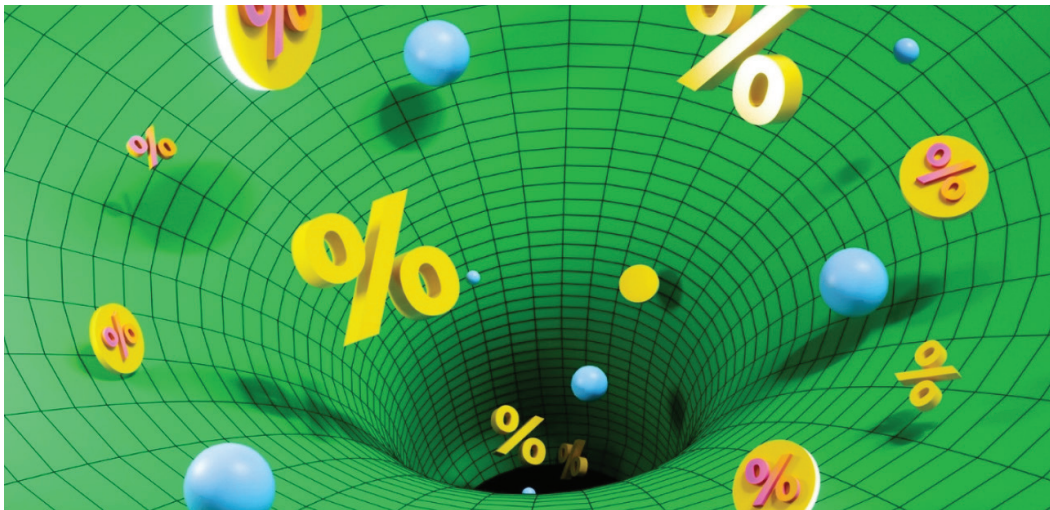
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Tax Prep vs. Tax Strategy: The Difference Matters More Than You Think



Key Takeaways

- Treat tax strategy as a continuous process, not a once-a-year filing exercise.
- Coordinate with financial and tax professionals throughout the year to identify opportunities for efficiency.
- Review contribution limits, charitable rules, and estate thresholds periodically to see if legislation has evolved.
- Consider how income timing, Roth conversions, and charitable giving may affect your overall tax picture.

Why Think About Taxes Beyond Filing Your Return?

Filing your tax return reports what has already happened, while managing taxes effectively means looking forward and making decisions that can influence future outcomes. Wednesday, April 15, 2026, should be a date we all have marked on our calendars; however, the real opportunity lies in taking a broader approach, viewing tax strategy as a year-round process that can help you avoid paying more than required by law.

This February, while taxes are already top of mind, it may be worthwhile to discuss with your financial professional and tax consultant how to shift from reactive tax preparation to a proactive tax strategy to set you up for 2026 and beyond.

Keep in mind this article is intended for informational purposes only. Please consult your tax, legal, and accounting professionals before modifying your tax strategy.

What Is the Difference Between Tax Preparation and Tax Strategy?

A strong tax strategy is an ongoing approach that considers your past, present, and future income, capital gains, and portfolio structure to manage your tax burden over your lifetime.

Tax preparation, by contrast, is the necessary but straightforward annual process of filing your tax return with the IRS.

How Does Tax Preparation Work?

Tax preparation involves gathering your financial information and completing your tax return, typically a one-time event that happens after the tax year has ended. You can prepare your taxes yourself, through online services, or by hiring a preparer. Because it is backward-looking, your ability to influence the outcome is limited once the year is over.

What Makes a Tax Strategy Forward-Looking?

A forward-looking tax strategy is the ongoing process of employing tactics to help manage what you pay in taxes. This proactive approach typically involves your financial professional and tax consultant working together to review past decisions and future opportunities.

Having a solid tax strategy does not necessarily mean receiving the biggest refund. It can sometimes mean making decisions today to get better positioned for the future.

Common elements of a well-designed, year-round tax strategy include:

- Income timing
- Tax-advantaged investing
- Charitable giving optimization
- Tax-loss harvesting
- Estate and gift taxes

How Can Income Timing Help Manage Your Tax Burden?

Income timing aims to influence your tax liability by shifting taxable income or deductible expenses between calendar years when possible. For example, one goal can be to defer taxable income into a future year and move deductions into the current one. However, if you expect to be in a higher bracket next year, accelerating income into this year might be a consideration.¹

Not all income can be shifted, but you may have flexibility with bonuses, self-employment income, or retirement plan distributions other than Required Minimum Distributions (RMDs). Because timing can be complex, consulting professionals can help you better understand all the choices before making a decision.¹

What Is Tax-Advantaged Investing, and Why Does It Matter?

Another strategy for managing taxable income is to use tax-advantaged investing when possible.

Traditional IRAs and employer-sponsored plans, such as 401(k)s, are examples. Traditional IRA contributions can be tax-deductible (subject to income limits), and 401(k) contributions are pre-tax. These investments grow tax-deferred until withdrawn, at which point withdrawals are taxed as income.¹

For 2026, you can defer \$24,500 into your 401(k), up from \$23,500 in 2025, and those aged 50 and older can add \$8,000 in catch-up contributions.²

Recent SECURE 2.0 changes affect these rules. In 2026, employees aged 50 or older who earn over \$150,000 in the prior year must make catch-up contributions as after-tax Roth contributions.²

Another SECURE 2.0 rule that, starting January 1, 2025, allows participants who are age 60, 61, 62, or 63 during the calendar year to make increased “super” catch-up contributions, regardless of their income. For 2026, the super catch-up limit is \$11,250 for 401(k), 403(b), and governmental 457(b) plans.^{2, 3}

Because laws evolve, coordinating with your financial professional and tax consultant can help you keep up with changes and make informed decisions.

How Can Charitable Giving Support Your Tax Goals?

Charitable giving reflects your generosity, and it can also be structured to help manage your taxable income. There are several ways to leverage your generosity while potentially benefiting yourself at tax time.

Changes Under the OBBBA: The OBBBA introduced several charitable giving rule changes effective in 2026.³

- Above-the-line charitable deduction: New for non-itemizers at \$1,000 (single) or \$2,000 (joint) for cash gifts to public charities (excluding Donor-Advised Funds (DAFs) and supporting organizations).
- New Adjusted Gross Income (AGI) floor: For itemizers, only charitable contributions exceeding 0.5 percent of AGI will be deductible.
- 35 percent deduction cap: For taxpayers in the top income tax bracket, the value of itemized deductions—including charitable gifts—is capped at a 35 percent benefit.

Qualified Charitable Distributions (QCDs): Individuals age 70½ and older can make tax-free donations directly from an IRA to a qualified charity, receiving the tax benefit while potentially satisfying all or part of their annual RMDs. For 2026, the QCD limit rises to \$111,000.⁴

Donor-Advised Funds (DAFs): A DAF acts as a charitable investment account. You can contribute cash, securities, or other assets and are generally eligible for an immediate tax deduction, while grants are made over time to IRS-qualified public charities. DAFs are a flexible and tax-efficient vehicle for charitable giving, available to high-net-worth donors.⁵

The DAF structure provides immediate tax benefits from contributing to a public charity, while also offering ongoing control over your philanthropy. You can contribute when it makes sense from a tax perspective, then distribute grants to charities according to your preferred timeline and giving goals.⁵

Some Donor-Advised funds are considered mutual funds and are sold only by prospectus. The prospectus will provide information on charges, risks, expenses, and investment objectives and should be reviewed carefully before investing. Investment companies can provide a prospectus, or you may prefer to ask your financial professional. Please read it carefully before you invest or send money.

Bundling Charitable Deductions: Combining multiple years of giving into a single tax year may help exceed the standard deduction threshold and enable itemization. In 2026, with the standard deduction at \$16,100 for single filers and \$32,200 for married filing jointly, many people may not have a significant enough deduction to benefit from itemizing their returns. Bundling is a tax strategy that involves grouping multiple years of deductions into a single year to exceed the standard deduction, which might be beneficial in high-income years.⁶

Where Do Roth Contributions and Conversions Fit In?

Roth IRAs involve paying taxes today in exchange for tax-free earnings and withdrawals in the future, provided certain rules are met. Contributions are made with after-tax dollars.⁷

An important tax strategy discussion is whether it makes sense to do a Roth conversion. This is when you roll over your retirement plan into a Roth IRA. By doing this, you pay taxes upfront but may not be taxed when you take withdrawals later in life. You will be taxed on the amount of the rollover in the year you do it, which can result in a larger-than-expected tax bill.⁷

To help manage the immediate year tax hit, some people roll over a portion of their investments into a Roth annually instead of all at once. Roth conversions may not be suitable for everyone, so understanding the pros and cons is crucial before making a decision. Additionally, tax rules are constantly evolving, and there is no guarantee that the tax landscape will remain unchanged in the years ahead.⁷

What Is Tax-Loss Harvesting, and When Might It Apply?

Tax-loss harvesting uses realized investment losses to offset capital gains on investments that have increased in value. While you may not want to make investment decisions just based on how it may impact your taxes, selling investments at a loss can help manage taxable gains. As with other tax strategies, tax-loss harvesting can be complex, which is why you may want to work with a tax professional. One nuance is that long-term losses must be offset by long-term gains before being offset by short-term ones. Another is that the IRS wash-sale rule prevents repurchasing the same or substantially identical security within 30 days of the sale.¹

How Do Estate and Gift Tax Changes Affect Wealth Transfer?

The OBBBA brings clarity to the federal estate tax landscape. The law sets the estate and gift tax exemption at \$15 million per individual, or \$30 million for married couples, indexed for inflation. This settles the uncertainty around the Tax Cuts and Jobs Act (TCJA), which was scheduled to cut the exemption roughly in half starting in 2026.⁸ A future Congress or Administration can always pass a new law changing these exemption numbers.

However, the current high exemption means that over 99 percent of estates will not be subject to the federal estate tax.⁹

Some states still impose their own estate or inheritance taxes at lower levels, so location remains a key consideration. Coordinating with professionals can help align your approach with both federal and state rules.

What Surprises Can an Effective Tax Strategy Help Prevent?

Several common issues can be avoided through tax awareness and education.

- **Quarterly Estimated Tax Penalties:** Income not subject to withholding—such as self-employment or investment income—may require quarterly estimated payments to the IRS. If you didn't pay enough tax during the year, either through withholding or by making estimated tax payments, you may be subject to a penalty for underpayment.¹⁰
- **Taxes on Qualified Plan Withdrawals:** You have invested in qualified plans to build a nest egg for retirement, but don't be surprised when you are taxed on these withdrawals. Money withdrawn from tax-deferred accounts is taxed as regular income. Helping you create a comprehensive and customized retirement income strategy is one of the most critical roles a financial professional can perform. Your financial professional can work with you to coordinate the sequence of withdrawals to manage your retirement income efficiently.¹¹

How Can a Year-Round Tax Calendar Help Keep You Organized?

A regular schedule may help keep taxes top of mind throughout the year.

- **February–March:** File returns or extensions, make final retirement plan contributions, review your prior-year return, and pay first-quarter estimates.
- **April–June:** Review income and tax status, make second-quarter payments, and begin identifying potential tax-loss harvesting candidates.
- **July–September:** Make third-quarter payments, review charitable giving, and evaluate the pros and cons of Roth conversions.
- **October–December:** Consider executing any tax-loss harvesting that you and your financial professional think aligns with your goals. Also, consider moving ahead with retirement contributions, including catch-ups, if appropriate, bundle charitable donations, if appropriate, and time bonuses strategically.

What's The Takeaway on Year-Round Tax Awareness?

Tax preparation records what has already occurred; tax strategy shapes what comes next. Both matter, but understanding taxes as an ongoing effort can help you grow and preserve wealth over time.

While you're focused on taxes this February, consider moving from an annual approach to a year-round strategy. If you'd like to discuss how to make taxes an integrated part of your broader financial approach, we welcome a conversation about 2026 and beyond.

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2. BDO.com, November 2025.

<https://www.bdo.com/insights/tax/irs-issues-final-catch-up-contribution-regulations-for-salary-deferrals-in-retirement-plans>

3. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Once you reach age 73, you must begin taking the required minimum distributions from a traditional IRA in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

Similarly, once you reach age 73, you must begin taking required minimum distributions from your 401(k) or any other defined contribution plan in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

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