

The Hidden Tax on Your Wealth

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Most investors think about taxes once per year.

April arrives, documents are gathered, numbers are calculated and a return is filed. Then, for a while at least, taxes fade into the background.

But even before you file that return, several factors have likely influenced your tax outcome, potentially in significant ways.

The most important tax decisions rarely occur in April. Tax events happen year-round when you earn income, sell investments or make financial choices, all without much thought to the long-term consequences.

Taxes, in that sense, aren't "events" but a process. And like most investment processes, their real impact is not immediate. It compounds quietly over time.

When investors consider risk, their minds often jump to market volatility. They worry about downturns, recessions or the next headline that might move prices. But over the long run, taxes are one of the most persistent headwinds investors face.

Like riding a bike into a steady wind, taxes create resistance that slows you down. Their effect is easy to overlook in sprints, but meaningful over long distances. Income taxes on withdrawals, capital gains on appreciated investments, taxes on dividends and interest all may seem manageable initially, but over decades, these forces quietly reduce your money while it remains invested and compounding.

If that process is interrupted each year, the effect is not dramatic but gradual, subtle and eventually meaningful.

I often consider tax planning in the context of a garden. No one waits until harvest season to decide what they should have planted. The real outcome was determined earlier when you established the garden, prepared the soil and chose the seeds.

Similarly, when filing your tax return, you're simply reporting what has already happened. The opportunity to influence the outcome has passed.

The question, then, isn't whether your taxes matter. It's whether you're considering them at the right time.

This is where many investors run into a quiet but costly problem. They assume their tax strategy is already being handled because they have a CPA who prepares their annual return. But tax planning is different. Instead of summarizing your history, it looks forward, evaluating decisions in advance. Planning covers how and when to sell an investment, and how to structure retirement withdrawals, give charitably, or prepare for a future business sale.

That kind of planning rarely happens in isolation.

Most people's financial lives are more complex than they appear. Investment portfolios, retirement accounts, real estate, business interests, charitable goals and estate plans all intersect in ways that aren't always initially obvious. Decisions in one area often impact another. If you consider these pieces separately, you'll easily miss opportunities.

If you coordinate them a different picture emerges, allowing you greater advantages.

Consider a simple example: A family wants to make a meaningful charitable gift. They could just write a check. Or they could donate appreciated stock. The latter option can avoid capital gains taxes while still providing a full charitable deduction. But tapping into this benefit often requires coordination between the portfolio's managing advisor and the CPA who understands the tax implications.

Or consider retirement. Many investors hold assets across multiple types of accounts: traditional retirement accounts, Roth accounts, and taxable investments. Each is taxed differently. Without a coordinated withdrawal strategy, it's easy to unintentionally push income into higher tax brackets.

With thoughtful planning, those same withdrawals can often be structured more efficiently over time. This same principle applies to larger financial moments like selling a business or real estate, or even to the gradual diversification of a concentrated position. When anticipated early, these events offer a wide range of available options. When they're addressed late, the options tend to narrow.

This is why proactive tax planning is less about reacting to the past than about preparing for what's likely to happen next. By recognizing financial "curves in the road" early enough, you'll have ample time to adjust your route.

And this is how a financial advisor can add significant value. By ensuring different parts of a client's financial life are working in unison, outcomes can exceed the sum of their parts.

A highly overlooked truth in investing is that taxes compound, just like investment returns do. But taxes gradually reduce wealth rather than building it. Each unnecessary tax paid today is not just a dollar lost, but one that can no longer grow.

Over time, that difference can become meaningful.

The goal of tax planning isn't to eliminate taxes entirely. That's neither realistic nor necessary. The goal is to manage when taxes occur and how large they become so more of your capital remains invested, compounding and working on your behalf.

The message is simple: Tax planning is a year-round activity.

And like with most investment strategies, the earlier and more coordinated your planning is, the more flexibility you'll have.

In Part Two, we'll explore where these tax decisions tend to matter most, the types of investors most affected, and why waiting too long to plan can become a costly mistake.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

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