INSIGHTS

A QUARTERLY WEALTH MANAGEMENT PUBLICATION *of* FERGUSON WELLMAN, OCTAVIA GROUP *and* WEST BEARING

WEALTH MANAGEMENT
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IN THIS PUBLICATION

Founded in 1975, Ferguson Wellman is a privately owned registered investment adviser, established in the Pacific Northwest. The firm manages more than $7.1 billion for 943 clients include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of $4 million or more (updated annually as of January 1, 2023).

West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at $1 million.

Octavia Group, Ferguson Wellman's private family office, provides fee-based services for clients with $10 million managed by our firm.

INVESTMENT EXCELLENCE
LIFELONG RELATIONSHIPS

GIFTING IRA FUNDS TO CHARITY AND OTHER SMART PHILANTHROPIC STRATEGIES

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MANY INVESTORS SAVE FOR RETIREMENT using a combination of tax-advantaged retirement accounts and taxable accounts. Common retirement structures include individual retirement accounts (IRAs) and employer sponsored 401(k) accounts. Both IRAs and 401(k)s can be either pre-tax or after-tax Roth accounts. The optimized combination of pre-tax, post-tax and standard taxable account savings varies based on the specific circumstances of each saver. However, there is no doubt that pre-tax, traditional IRA savings has the lowest spending value, dollar-for-dollar, in retirement due to the income tax liability triggered by each withdrawal.

Individuals who are making charitable contributions will likely benefit from a thoughtful approach to selecting the source of funds for their charitable giving and the timing of their contributions. For example, individuals over age 70.5 have the option of giving up to $100,000* per year directly from their pre-tax or traditional IRA to public charitable organizations and avoid the need to claim the taxable income on the distribution. This can have the obvious advantage of reducing one's income tax liability, but may also have other ancillary benefits, such as reducing one's Medicare premiums and the taxability of social security income. While eligibility for making these qualified charitable distributions (QCDs) begins at age 70.5, this approach will often not make sense until one is subject to required minimum distributions (RMDs), which, starting in 2023 is age 73 for most. The value of a QCD is attributable to the avoidance of income that would otherwise be required to be claimed in a given year and thus is generally most valuable for investors who plan to claim the standard deduction on their tax return.

For individuals who plan to itemize their deductions on their tax returns, it may be more advantageous to donate appreciated property. By donating appreciated property, the donor is typically able to claim the full value of the gift as an itemized deduction, while also avoiding the capital gains tax that would otherwise be triggered if the donor were to sell the property and donate cash.

POTENTIAL VALUE OF DONATING APPRECIATED SECURITIES

Some individuals contribute to charity at a level that does not push them significantly above the standard deduction each year. Some

	Total Cost of Gift	Total Value to Charity/ Tax Deduction
Stock is sold and after-tax proceeds are donated*	$25,000	$19,930
Appreciated stock donated to charity	$25,000	$25,000

**Will be indexed for inflation starting in 2024*

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Our Ferguson Wellman logo is based on a bronze coin of Marcus Aurelius Antoninus, emperor of Rome from A.D. 161 to 180. According to historian Edward Gibbon, he was the only person in history in which, "the happiness of a great people was the sole object of government." Marcus Aurelius was the author of a series of personal writings and meditations that revealed a mind of great humanity, natural humility and wisdom.

GIFTING IRA FUNDS TO CHARITY AND OTHER SMART PHILANTHROPIC STRATEGIES

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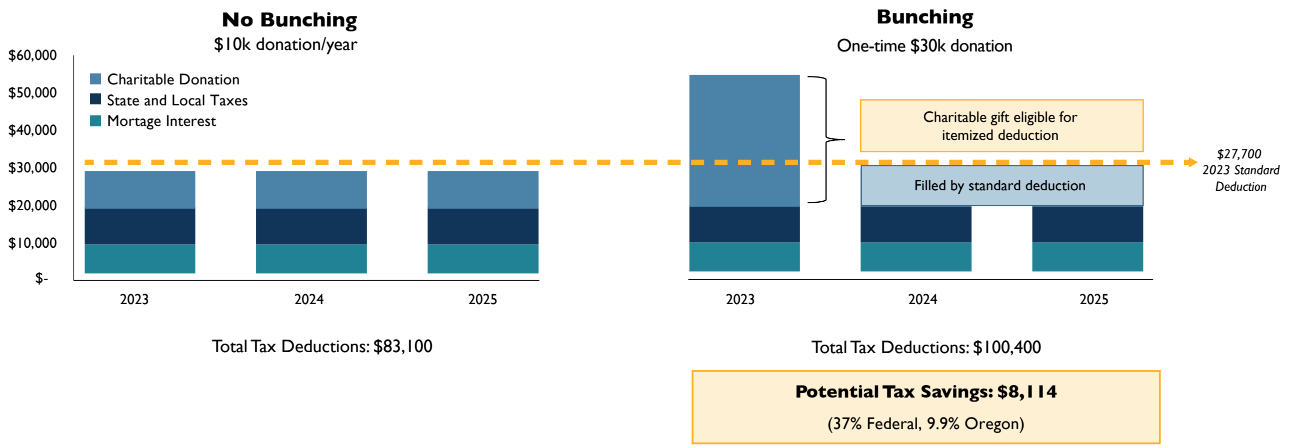
Tax Impact of Bunching on a $30,000 Charitable Gift



describe the amount given that does not push their deductions above the standard deduction as "wasted" in the sense that they would have received the same tax benefits even if the amount had not been given to charity. A smart giving approach for these individuals can be to bunch their charitable gifts into select years, pushing them higher above the standard deduction in some years and claiming the standard deduction in the intervening years. While a QCD will likely make the most sense for those over age 73, bunching can be effective at any age and can be used in combination with a QCD.

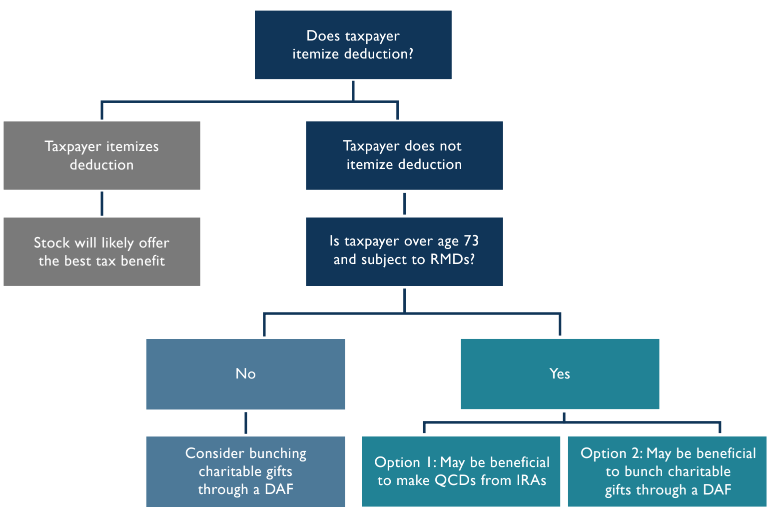
Recognizing that some individuals and families want to provide steady support to charitable organizations, a donor-advised fund is a simple account strategy that allows bunching the contributions for tax purposes, while still allowing the ultimate gifts to charities to be spread out as annual gifts or any other desired timeframe.

Donor-advised funds are commonly funded with appreciated securities to maximize the tax benefit to the donor.

In summary, many individuals will benefit from bunching their charitable contributions to perhaps every three years or so, potentially aided by the use of a donor-advised fund. Individuals who are subject to required minimum distributions from their traditional, pre-tax IRAs may benefit from making direct gifts to public charities, known as qualified charitable distributions.

As always, we recommend you discuss your specific situation and needs with your portfolio manager.

Charitable Giving Decision Tree



The laurel is part of our Octavia Group branding. Octavia the Younger was one of the most prominent women in Roman history. She was respected for her nobility and humility. Octavia was hailed as a "marvel of womanhood" and was a political advisor between her brother and husband. She was immune from the "tutela," which placed in her the unique position of managing her own finances.

STANDARD OR ITEMIZED: WHICH DEDUCTION SHOULD I USE ON MY TAX RETURN?

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THE CHOICE BETWEEN ITEMIZED AND standard deduction on your tax return is a critical decision that can significantly impact your tax liability. Understanding the implications of these options, as well as the potential effects of sunsetting provisions and the role of donor-advised funds, is essential for making informed financial decisions.

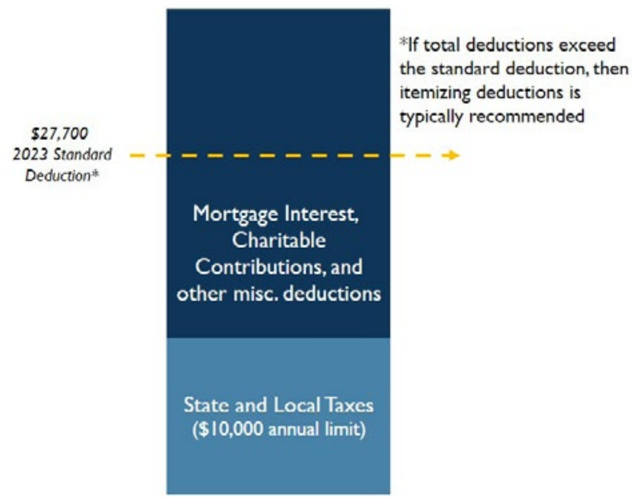
The standard deduction is a fixed amount set by the tax code and determined by your filing status. For 2023 the deduction is $13,850 for individuals and $27,700 for married couples filing a joint tax return. An additional $1,850 deduction is available to those over the age of 65. The standard deduction provides a simpler way to reduce your taxable income, without the need to track and document individual expenses.

The itemized deduction allows taxpayers to detail specific eligible expenses incurred throughout the tax year. These expenses may include some medical and dental costs, state and local tax allowances, property taxes, mortgage interest, charitable contributions and certain other qualifying expenses. Itemizing deductions can be beneficial if the sum of these expenses exceeds the standard deduction, potentially reducing your taxable income and overall tax liability.

The Tax Cuts and Jobs Act of 2017, which introduced significant changes to the tax code, including adjustments to tax brackets, increased standard deductions and restricted itemized deductions, is set to expire on January 1, 2026. One such restriction, known as the SALT (State and Local Tax) deduction cap, limits taxpayers to deducting a maximum of $10,000 of local and state taxes (including property taxes) on their federal tax return. This limitation, in conjunction with higher standard deductions, means that fewer taxpayers are now choosing to itemize their deductions. One way to maximize your tax deduction is to bunch future charitable gifts into one tax year. This higher eligible expense allows you to itemize deductions in one year, receiving a tax benefit for gifts that might otherwise be non-deductible.

In the context of charitable giving, donor-advised funds (DAFs) are a popular tool for individuals to manage their charitable contributions strategically. A DAF allows you to make a charitable contribution, receive an immediate tax deduction, and then recommend grants from the fund to specific 501(c)3 registered nonprofits in subsequent years. DAFs offer flexibility and control over the timing of grants to charities, making them a valuable tool for tax planning and philanthropy.

When To Choose Itemized Deductions



Source: Ferguson Wellman

It is important to note that the tax treatment of DAFs, like other aspects of the tax code, can be subject to change due to sunsetting provisions or legislative reforms. Therefore, individuals utilizing DAFs should stay informed about potential changes that could impact their ability to contribute, deduct and distribute funds from these accounts.

The decision between itemized and standard deduction depends on your individual financial situation, eligible expenses and potential changes to the tax code. Staying informed and seeking advice from your portfolio manager and tax professional can help you navigate these complexities and make an informed decision to leverage strategies that align with your financial goals.

Our West Bearing logo is inspired by the American bison, an iconic creature symbolizing resilience, grace and the western path to growth and opportunity. Most animals attempt to outrun inclement weather, prolonging their exposure to the elements and, in doing so, weaken their conditions. Only bison instinctively turn to face the storm, often bearing west, to find the quickest path to clear skies.

FUNDAMENTALS OF TAXABLE INVESTING

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Portfolio and Wealth Management

"IT'S NOT WHAT YOU MAKE, it's what you keep," this adage is frequently cited by investors to highlight the impact that taxes can take out of investment returns. Building a diversified portfolio requires being aware of how investments are taxed. We have outlined a few key fundamentals around investment taxation to help inform investors with taxable portfolios.

Capital gain refers to the increase or appreciation in an investment's value from its original purchase price. There are two types of capital gain based on how long an investment is held, short term and long term. Short-term capital gain is from an investment held for one year or less and if sold, generally taxed as higher ordinary income tax rates. Long-term capital gain is from an investment held longer than a year and if sold, generally enjoys a lower preferential tax rate.

Capital loss refers to the decline in an investment's value from its original purchase price. The same short-term and long-term holding period rules apply. If sold, a capital loss can reduce an investor's tax liability by offsetting capital gains on other investments. Short-term losses are used first to offset short-term gains and a long-term loss is used first to offset long-term gains. If there are additional losses beyond the respective holding period type, either type can then be netted against the other type of gain. If combined losses are greater than gains, then $3,000 of the loss can be used to offset ordinary taxable income.

Capital loss carryover is a special tax rule where an unused capital loss can be carried forward and used in subsequent years. This allows a taxpayer to reduce future year's capital gain tax liability indefinitely until the loss is exhausted. However, when you die any capital loss carryover is lost. Accordingly, it is prudent to be aware of tax losses carryover for ongoing tax planning.

Unrealized capital gain or loss refers to an investment that has not been sold yet. Once an investment is sold then the capital gain or loss becomes realized and associated tax implications come into play. Managing unrealized and realized investment gains is an integral part of ongoing taxable investing.

Tax loss harvesting is a tactic where an investor strategically sells an investment that is at a loss, to realize capital loss and thus reduce their tax liability. Investors need to be aware of the potential pitfall if they repurchase the investment known as the wash-sale rule. This rule precludes repurchasing the same or substantially identical investment within 30 days. For investors to remain invested during this window, purchasing another replacement investment can offset the risk of being out of the market.

Dividend income is another tax-preferred source of income for investors. Dividends are the distribution of company profits to its shareholders and can represent a meaningful amount of return for investors. Qualified dividends enjoy a preferred tax treatment, subject to certain company requirements and a minimum holding period for the investor. Non-qualified dividends are dividends that do not meet certain requirements and are generally subject to higher ordinary income tax rates.

Interest income received from investments such as bonds, CDs or bank accounts is generally subject to higher ordinary income tax rates. Interest income that is received from municipal and government bonds can also be partially or fully tax-free depending on the bond issuer and investors' situation.

Qualified accounts such as an IRA or 401k are generally not subject to tax from the investments inside the account and follow a separate set of rules around taxation. Tax implications are typically associated with contributions and distributions into and out of a qualified account.

Being tax smart by staying informed on how taxes impact an investment is a wise move and part of building long term wealth. But another favorite expression to remind investors to keep tax issues in perspective is, "Don't let the tax tail wag the investment dog."

Disclosures: *Ferguson Wellman, Octavia Group and West Bearing do not provide tax, legal, insurance or medical advice. This material has been prepared for general educational purposes only and not as a substitute for qualified counsel who can determine how this information applies to you.*