IV QTR MMXX

INSIGHTS

A FERGUSON WELLMAN & WEST BEARING
WEALTH MANAGEMENT PUBLICATION

READY, SET, WAIT...

As we enter the fourth quarter of 2020, we face significantly different tax policy proposals from our presidential candidates. Developing a comprehensive gift, estate and income tax strategy in concert with your tax and legal advisors, but waiting until after the outcome of the election, may be prudent.

WEALTH MANAGEMENT
FOURTH QUARTER 2020

IN THIS PUBLICATION

Founded in 1975, Ferguson Wellman is a privately owned registered investment advisory firm, established in the Pacific Northwest. As of January 1, 2020, the firm manages over $5.96 billion for more than 848 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and endowments and foundations with portfolios of $3 million or more.

West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at $750,000.

INVESTMENT EXCELLENCE
LIFELONG RELATIONSHIPS

STEWARDING WEALTH AND PHILANTHROPY

MARY LAGO, CFP®, CTFA
Executive Vice President
Portfolio and Wealth Management
Wealth Management Chair

WE ARE FORTUNATE to serve many clients who focus on being good stewards of their wealth. Financial stewardship manifests itself in a variety of ways. For example, in the context of investing, it might lead to accepting more risk than necessary to meet your own goals, to seek higher growth and therefore greater resources for future generations. Another example of good stewardship is advance planning to mitigate income and estate taxes. Election season, and the significant variances in the candidates' tax proposals, have many tax advisors busily planning so clients can be in stand-by mode, ready to act quickly on various techniques once the election outcome is known. As we come into year-end, a time when many are finalizing their charitable giving, we share some thoughts on stewardship in the context of philanthropy. Regardless of the magnitude of your giving, a philanthropic budget may help you feel more empowered, drive more meaningful impacts in your community and help you communicate your values to heirs.

CREATING A PHILANTHROPIC BUDGET

Individuals with significant resources or higher profiles may be approached to support charitable causes on a frequent basis. As such, it is easy to let the desire to say "yes" be a larger driver in giving than an individual's personal passion for a cause or organization. Families can address this situation by developing an annual philanthropy budget, designed around their own values. Equipped with a budget reflective of your family's values and knowledge of tax-smart planning, you can politely thank the requestor for bringing the opportunity to your attention. You can share that you will review the opportunity with your financial advisors as you create your philanthropy budget for next year. Following are seven questions, and some common responses, to help guide intentional philanthropy:

WHY DO I/WE WANT TO GIVE?

- Values or faith
- Personal fulfillment
- Enjoyment of events
- Strategic: networking, boards

>> *Continued on page II*

Everything we hear is an opinion, not a fact. Everything we see is a perspective, not the truth. – MARCUS AURELIUS

WHICH CAUSES DO I/WE WANT TO SUPPORT?

- Health (e.g., prioritize fitness; sister has diabetes, father had cancer)
- Arts (e.g., interest in art and belief that it improves quality of life)
- Education (e.g., alma mater, community school, scholarships)
- Environment
- Housing and essential services
- Causes selected by children or grandchildren to engage them in philanthropy

DO I/WE WANT TO DISCLOSE MY/OUR NAME(S) OR GIVE ANONYMOUSLY?

- Privacy or limiting future requests
- Leading by example and motivating others
- Creates opportunity to ask others to join in supporting the cause

HOW MUCH DO I/WE WANT TO GIVE?

- Percent of income
- Fixed dollar amount that is reviewed annually
- Required minimum distribution or annual maximum from IRA as a qualified charitable distribution
- Similar amounts each year or strategically to maximize tax deductions

HOW DO I/WE WANT TO GIVE?

- Direct and outright
- Personally
- Long-term commitment of support
- Donor-advised fund, family foundation, charitable trust, gift annuity

WHAT DO I/WE WANT TO GIVE?

- Cash
- Retirement accounts
- Appreciated assets such as securities, real estate or business interest
- Life insurance
- Time

WHEN DO I/WE WANT TO GIVE?

- During my/our lifetime to see the impact and shape future gifts
- Through my estate when I no longer need the funds
- Strategically to offset high income taxes
- When inspired

It is not uncommon for clarity on your goals and a vision of your impact to result in an increase in passion for your cause. Engaging your family and loved ones, including future generations, in portions of this process will likely lead to some very enjoyable and enlightening conversations and perhaps deeper understandings on many levels.

Ferguson Wellman and West Bearing are available to help you evaluate your financial capacity and structure philanthropic strategies in concert with other advisors.

TAX-SAVVY BRACKET MANAGEMENT

SAMANTHA PAHLOW, CTFA, AWMA®
Senior Vice President, Portfolio and Wealth Management

"Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible."

\- JUDGE LEARNED HAND

THE HONORABLE LEARNED HAND once said, "Taxes are enforced exactions, not voluntary contributions." Thus, it may be in your best interest to take an active role in your tax situation and arrange your affairs to be as efficient as possible.

At minimum, it is good practice to understand your marginal tax rate and how it may change in the future, so that you can consistently make tax savvy decisions. This year, with a presidential election looming and a variety of tax rules sunsetting or changing in 2026, it is particularly important to assess your tax situation and make thoughtful decisions about the recognition or deferral of income and deductions.

Your marginal tax rate depends on a variety of factors, some of which include your income, deductions, age, filing status and the current tax law. While impossible to predict the future of tax law, most years, the short-term tax implications may be known with some degree of confidence. For example, if you plan to retire in the next couple of years, you can reasonably estimate how your tax rate may change from one year to the next. This analysis may present opportunities to shift income into relatively lower tax rate years, or time deductions into years you expect a higher marginal tax rate.

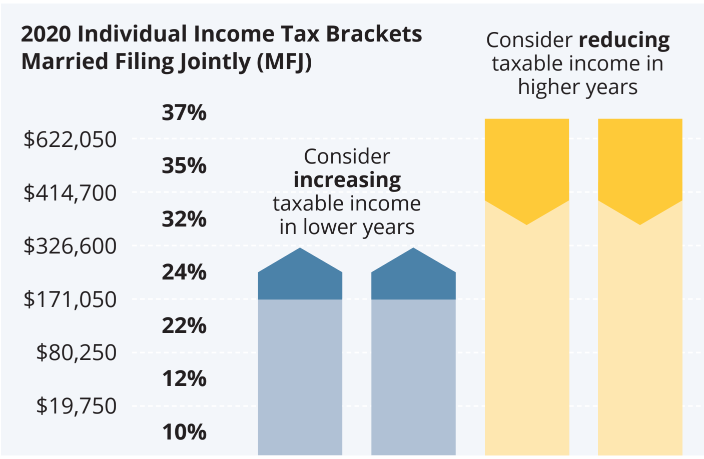
U.S. INCOME TAX SYSTEM

As a reminder, the United States has a graduated income tax system, with rates increasing as levels of income increase. For example, a married couple pays 10 percent on income up to $19,750, then 22 percent on the next $60,500, and so on until the top tax bracket where they pay 37 percent on income over $622,050.

Qualifying long-term capital gains and dividends are also taxed in a graduated way, but with different brackets and rates. Federal rates range from zero-to-23.8 percent. Forty-three states also impose an income tax on individuals.

TAX-SMART BRACKET MANAGEMENT

Understanding the graduated nature of our U.S. income tax system opens the door to strategies that go beyond deferring tax to seeking to minimize your total income tax liability over your lifetime.



Remember the $250,000 (MFJ) threshold for the additional 3.8% Medicare surtax on investment income

Source: IRS.gov

Tax-smart planning doesn't mean reducing your current tax bill at all cost. It means being thoughtful and taking a long-term view. For example, it may actually be advantageous to increase your taxable income during years when you are in relatively low tax bracket. Timing of this strategy could be immediately after retirement or in a year where you make a large charitable donation to take advantage of lower applicable rates.

Following are examples of strategies you might consider in concert with your tax and other professional advisors.

HIGH-INCOME, HIGH TAX-RATE YEARS

If you are currently in a high-income, high tax-rate year, you might:

Increase retirement deferrals: Consider maximizing your contributions to pre-tax retirement accounts, such as traditional 401(k)s or IRAs.

Realize capital losses: Explore selling investments that have decreased in value and reinvest the proceeds in other investments. You can then deduct the loss against current year gains, and up to $3,000 against ordinary income.

Delay income: Consider deferring sales at a gain or other income into the next tax year if the rate would be lower.

Accelerate or "bunch" deductions where you can: Bunching deductions in a high-income year is a useful strategy for maximizing the "tax-bang-for-your-deduction buck." Taking a deduction at a marginal rate of 37 percent is better than taking the same deduction at a rate of 24 percent. Deductions that are sometimes easy to bunch are charitable donations and medical expenses.

High Tax-Rate Year		Low Tax-Rate Year
$10,000	*Value of Deduction*	$10,000
37%	*Marginal Tax Rate*	22%
$3,700	*Income Tax Savings*	**$2,200**

*Deduction is worth **$1,500 more** merely by controlling timing*

Source: IRS.gov

Minimize withdrawals from tax-deferred accounts like a 401(k) or IRA. If you normally withdraw from a pre-tax retirement account, such as an IRA for 401(k) for living expenses, consider a combination of withdrawals from post-tax and tax-free accounts in high-rate years.

LOW-INCOME, LOW TAX-RATE YEARS

If you are in a relatively low-income (i.e., low marginal tax rate) year, consider accelerating income to fill up the lower tax brackets using strategies such as:

Intentionally recognizing capital gains: While it sounds counterintuitive, in very low tax rate years, you may also be in the zero-percent capital gains bracket. In relatively low bracket years, it may be appropriate to intentionally recognize long-term capital gains to achieve better portfolio diversification.

Converting to a Roth IRA: Low-rate years are also an ideal time to consider a full or partial conversion of a traditional IRA or 401(k) to a Roth. While you will pay taxes on the conversion, you are paying them at a relatively low tax rate, rather than perhaps a higher tax rate in the future. Similarly, it may be appropriate to switch your retirement contributions from a traditional IRA or 401(k) to Roth savings.

Delaying deductions to future year: If there are expenses you can delay to a higher tax-rate year, it would make sense to do so and realize a larger tax savings for each dollar deducted.

A key factor in this planning process is for individuals and their tax and financial advisors to properly assess the current and expected future income, spending and tax laws. Schedule a time to speak with your tax advisor each year to determine whether any of these, or other, tax strategies are appropriate and may reduce your lifetime taxes.

As we are keenly aware this year, tax policy and personal financial circumstances can change and there is no guarantee that any strategy implemented now will achieve the exact intended results. However, taking a proactive approach to arranging your tax and financial affairs will offer the best chance at reducing your lifetime tax liability.

We encourage you to speak with your portfolio manager about your tax planning process and would be happy to schedule a collaborative meeting with your tax advisor to review and discuss strategies to improve your tax situation.

PREPARING FOR POSSIBLE CHANGES IN THE FEDERAL ESTATE-TAX EXEMPTION

SCOTT CHRISTIANSON, CFP®
Executive Vice President
Portfolio and Wealth Management

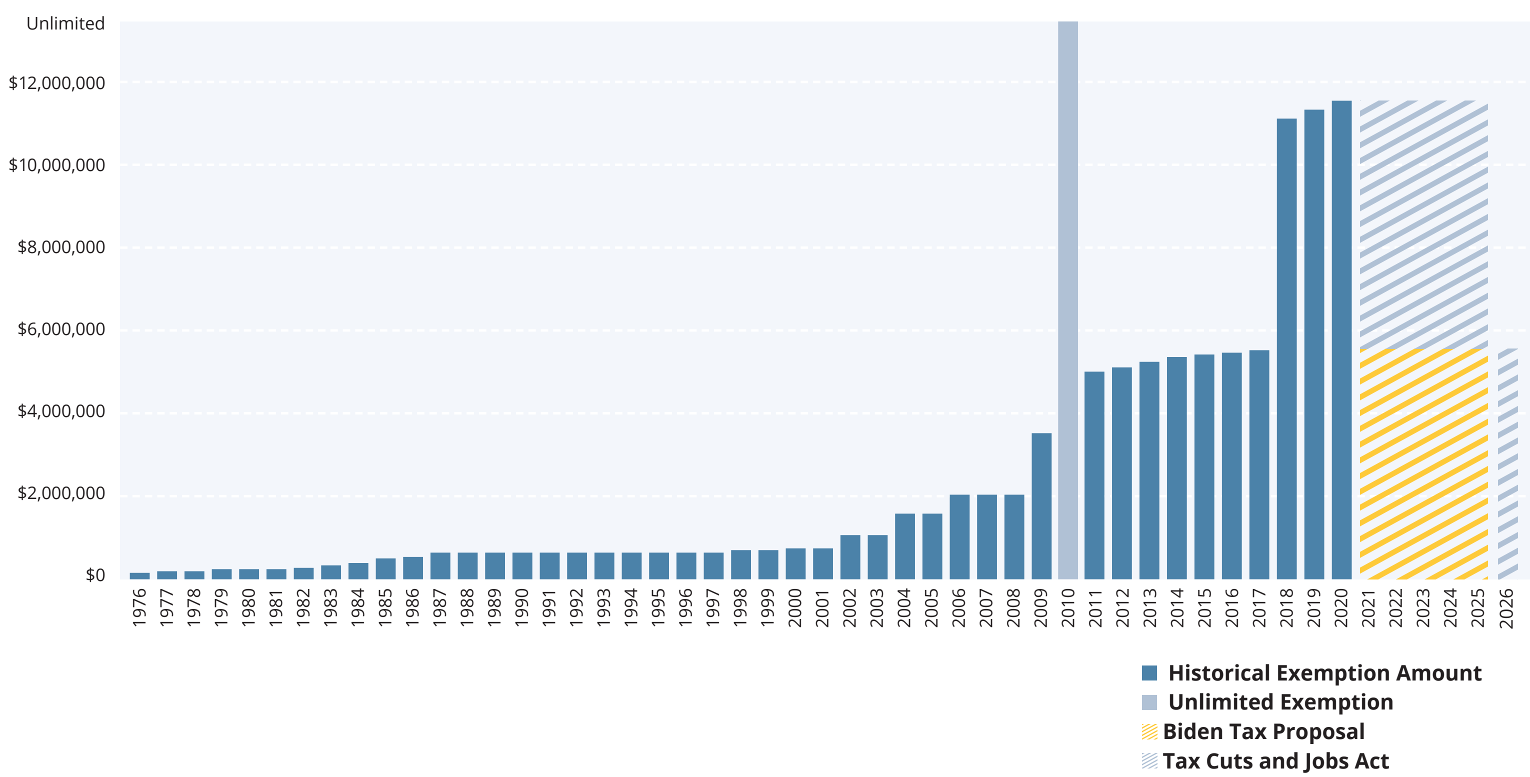
AS WE CONTEMPLATE STEWARDSHIP, personal values and tax mitigation, we would be remiss to ignore estate taxes. The federal estate-tax exemption is the cumulative amount we can give away during our life and/or at our death without incurring a federal transfer tax of 40 percent.* The Tax Cuts and Jobs Act, which became effective in 2018, doubled the previous exemption of $5 million, adjusted for inflation. For 2020, the estate-tax exemption is $11.58 million. Without further congressional action, this exemption will revert to $5 million (adjusted for inflation) in 2026. The Biden tax proposal, while perhaps generous by historical standards, contemplates an accelerated and more significant reduction, causing many tax and legal advisors to encourage their clients to complete significant lifetime gifts in 2020, while the exemption is still certain.

Seventeen states and the District of Columbia impose a state-level estate or inheritance tax. State death tax exemptions are generally much lower and therefore affect a much larger percentage of the population. For example, Oregon's estate tax exemption is $1 million and Washington's exemption is currently $2.193 million. Connecticut is the only state to impose a gift tax, for transfers made during life. Thus, most individuals with exposure to state death taxes could reduce family tax exposure through lifetime gifting, but other factors, including the cost basis of assets, may affect this analysis.

Lifetime gifts may be outright gifts to heirs with no restrictions or may be completed through various types of irrevocable trusts providing resources to beneficiaries over time or for specific purposes. These trusts may offer tax advantages in addition to possible protections, but do take time to develop. In order to ensure time for thoughtful planning, consistent with your long-term goals, and adequate time for any possible drafting by your attorney, we encourage you to schedule an estate planning review as soon as possible. It is important to ensure your own financial security as you evaluate gifting strategies. Your Ferguson Wellman and West Bearing portfolio managers are here to help.

*In addition to other exclusions such as annual gifts (currently $15,000) and direct payments of healthcare and tuition costs.

Federal Estate-Tax Exemptions



Sources: IRS.gov, taxfoundation.org