LAW OFFICES

BERNETICH, HATZELL & PASCU, LLC

JOHN D. BERNETICH JR.
JAMES L. HATZELL*
PAUL PASCU

MEMBERS OF N.J. AND PA. BARS
* ALSO MEMBER OF FL. BAR

2 KINGS HIGHWAY WEST, SUITE 101
HADDONFIELD, NEW JERSEY 08033

TELEPHONE: (856) 795-3535
FACSIMILE: (856) 795-3322

WEBSITE: WWW.ESTATEPLANLAWYER.COM

CLIENT MEMORANDUM

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Estate Planning Ideas for Year-End

The purpose of this memo is to inform you of recent changes in both the Federal Estate Tax law and the New Jersey and Pennsylvania Estate Tax laws. Due to these changes, it is advisable to review and possibly modify your estate planning documents.

1. Changes to the Estate Tax Laws. A law was passed, earlier in 2001, which changed the estate tax exemptions and rates. Following is a chart, which illustrates what will be the estate tax exemption and the maximum estate tax rate.

YEAR	ESTATE TAX EXEMPTION	MAXIMUM RATE
2001	$ 675,000	55%
2002	$1,000,000	50%
2003	$1,000,000	49%
2004	$1,500,000	48%
2005	$1,500,000	47%
2006	$2,000,000	46%
2007	$2,000,000	45%
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	Estate Tax is repealed	
2011	The "new law" will expire; and the old law (as in 2001) regarding Estate Tax will be reinstated, except that the exemption will then be $1,000,000.	

In summary, the estate tax remains in existence, for the foreseeable future, much in the same form that it was before. For a married couple, the combined exemptions were $1,350,000; under the new law effective January 1, 2002, the combined exemptions will be $2,000,000. This is a significant benefit especially for those estates which fall within that difference.

However, as before, if you were to simply leave your entire estate to your surviving spouse, your children would have the benefit of only a single exemption; and the result would be an unnecessarily high estate tax on the "second estate". It is still necessary to implement proper planning, specifically including the creation of a By-Pass Trust under your Will, in order for your children to be able to take advantage of both parents' exemptions.

My own opinion is that the new law will remain in place for the next few years. It seems unlikely that there will be a decrease in the estate tax over the next few years due to expected governmental budget constraints.

Please note that the exemption continues to increase through 2009, and then the estate tax is repealed for the year 2010 only(!) And, then, in the year 2011 the new law will "sunset" and the old estate tax law, (that is, what was in effect prior to 2001) will be re-instated. I also expect that, before the year 2010, this new law will be changed. Whether there will be an increase or decrease in the estate taxes will be determined by such factors as, what the economy will be like in 3 or 5 years, whether Republicans or Democrats are in the majority, and who will be elected President in 2004 and/or 2008. In short, I think the estate tax laws will remain in place for the next few years, but there is great uncertainty as to what will happen 4 or 5 years from now.

2. **Distributions from Retirement Plans**. Early in the year 2001, there were also significant changes in the laws regarding Required Minimum Distributions from IRAs and other retirement plans. In summary, the amounts which you are required to withdraw upon reaching age 70½, are now significantly smaller than they were under the old law. This is a benefit, because it allows for greater tax deferral. Also, it will be possible for your beneficiaries to extend payouts of inherited IRAs, over *their* lifetimes. This is also a very significant benefit. Again, planning steps need to be taken to take full advantage of these opportunities. The options are quite flexible, in that, on the one hand the beneficiary will have the right to defer the payout for many years, but on the other hand the beneficiary would always have the right to withdraw a larger amount if he or she should so desire.

3. **Annual Gift Tax Exclusion**. Remember to take advantage of the annual gift tax exclusion, which is $10,000 per donee per calendar year, or $20,000 per donee per calendar year for a married couple. It is *important to take advantage* of this gift tax exclusion. For every $20,000 gifted, the potential estate tax savings to your children is some $10,000. The gifts must be completed by December 31.

4. **Power of Attorney**. Everyone should have in place a Power of Attorney, granting to your spouse or some other trusted person, the power to handle your affairs in the event that you were to become *incapacitated*. Without it, your family might have to endure an expensive and time-consuming guardianship.

5. **Titling of Assets**. Joint ownership, at least joint ownership with right of survivorship (JTWROS), is frequently *not* the best type of ownership, for estate tax purposes. If you have too many assets in joint names, then this could lead to higher estate taxes on the "second estate". It is better to have at least some of your assets *separately titled*, that is, in each of the husband's and wife's names, so as to be able to utilize the By-Pass Trust in your Will, and thereby reduce estate taxes for your children.

6. **Gifts for Tuition and Medical Expenses**. In addition to the above-mentioned $10,000 annual gift tax exclusion, it is also possible to make gifts by way of paying tuition and medical expenses for your family members. In certain circumstances, this can be an extremely large benefit, and it is important to keep this planning idea in mind. The payments must be made *directly* to the school or doctor.

7. **Family Limited Partnership**. As it has been for the last few years, this is an *extremely favorable* technique, to consolidate assets, and to allow the older generation to remain as the Manager of the assets, while making gifts of minority and non-voting interests to other family members. Very significant estate tax benefits can be obtained. This is a "must consider" planning technique for all larger estates.

8. **Qualified Personal Residence Trust (QPRT)**. This is also a very favorable technique, which allows you to transfer your house to your children in a manner which will reduce the estate taxes. This technique is basically an *exception to the* normal *rules* because it allows you to make a transfer now, and use today's values for gift tax purposes, while retaining use and benefit of the property for any number of years into the future. Again, the potential estate tax savings to your children is great.

9. Grantor Retained Annuity Trust (GRAT) and Intentionally Defective Grantor Trust (IDGT). These are techniques, again, by which you can transfer assets to your family members, in a favorable manner. Using these techniques, you can, if you wish, transfer only the future appreciation on assets, while retaining for yourself the full value of the assets which you currently own. These techniques are relatively *more attractive now* in our current low-interest rate environment. These transfers can be accomplished without any current gift tax consequences.

10. Irrevocable Life Insurance Trust (ILIT). Frequently, taxpayers think that life insurance is not part of the taxable estate. If you own the policy on your life or on your spouse's life, then the life insurance proceeds will ultimately be subjected to estate taxes. The estate tax on both estates can be avoided, by having the insurance be *owned by* an ILIT. If your estate is in the taxable bracket, it is extremely important to consider having your life insurance be owned by an ILIT.

11. Medicaid Qualification. If it is possible that you or your parents may be entering a nursing home, and you wish to qualify for Medicaid assistance, then as a general rule you must have assets which are less than $2,000. There are planning techniques available, by which you can make gifts of interests in your home, and gifts of other assets, which will allow you to transfer assets to your family members.

12. Roth IRAs. This technique has not received much publicity lately, but it is important to remember that you can place assets into a Roth IRA. You do not receive a deduction currently, but, when the IRA is ultimately paid out, all of the principal and all of the accumulated income will then pass to you or your beneficiary in a totally *tax-free* manner.

13. Section 529 Plans. These are also known as Qualified Tuition Programs. These were made even *more favorable by the recent law changes*. These are tax-advantaged accounts to save for a beneficiary's college expenses. Any growth in the account is tax-deferred, and any amounts withdrawn after January 1, 2002 are exempt from Federal Income Taxes if used for qualified educational expenses. You can open an account for a child, grandchild, other family member, friend, or even yourself. You can change the beneficiary at any time. You can retain control over the types of investments, by selecting from the range of investments which are offered by the State-sponsored program. You can choose a program sponsored by any State. And you can invest up to a maximum amount of $250,000 for each beneficiary. The contribution constitutes a gift, but you are not limited by the $10,000 single limit. For example, you can contribute up to $50,000 immediately (or $100,000 for married couples) and average that contribution out over 5 years for gift tax purposes. The monies can be used for tuition, reasonable housing costs, books, and lab fees.

14. Non-Tax Estate Planning. It is, as always, extremely important to have a Will, even for relatively small estates. If you do not have a Will, it is *unlikely* that your assets will pass in the desired manner. It is important that you name who should be the Executor of your estate, and that you name Guardians for your children. It is also very important to provide in your Will that any assets passing to your children would be held in trust for them, until they reach a later age; if assets were to pass to minor children, complications arise which would lead to unnecessary expenses.