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CLIENT MEMORANDUM

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Following are some estate and tax planning items to be considered as part of a year-end review.

1. Will. It is important that you have in place a Will and estate plan so that your assets will pass to your intended beneficiaries in the relative amounts and under the terms that you desire. It is also important that you name the Executor, Trustee, and Guardian of your choice.

It is advisable to periodically review your estate plan every three to five years to ensure that it is consistent with your intentions. Updates should be made if your family circumstances change, such as a marriage, divorce, birth of a child, or death of a beneficiary; if the size of your estate changes substantially; if your health or that of a beneficiary changes; if your personal wishes change; or if (or when!) the tax law changes.

2. Federal Estate Tax Exemption. If the current law does not change, following are the estate tax consequences for decedents dying in the following years.

Year	Exemption	Tax Rate
2009	$3,500,000	45%
2010	no estate tax this year	
2011 & after	$1,000,000	45% - 55%

It is now generally expected that there will be at least a "patch" to the law, which will continue the estate tax during 2010. A permanent estate tax "fix" is generally expected sometime during the year 2010. However, it is also possible that no changes will be enacted, and the current law runs its course, in which case the $1M exemption would apply in 2011.

The Federal Estate Tax is based upon the value of your estate. Generally, all assets are included - real estate, securities, retirement accounts, life insurance, etc.

3. New Jersey Estate Tax. No changes are currently expected in this tax. This tax is payable only if and to the extent that it exceeds the New Jersey Inheritance Tax.

Amounts	Effective Tax Rate
$0-$675,000	0%
$675,000-$727,175	37.0% *
$727,175-$900,000	4.8%
$900,000-$1,100,000	5.6%
$1,100,000-$1,600,000	6.4%
$1,600,000-$2,100,000	7.2%
$2,100,000-$2,600,000	8.0%
$2,600,000-$3,100,000	8.8%
$3,100,000-$3,600,000	9.6%
$3,600,000-$4,100,000	10.4%
$4,100,000-$5,100,000	11.2%
$5,100,000-$6,100,000	12.0%
$6,100,000-$7,100,000	12.8%
$7,100,000-$8,100,000	13.6%
$8,100,000-$9,100,000	14.4%
$9,100,000-$10,100,000	15.2%
$10,100,000 and over	16.0%

*Note: this "bubble" is caused by the fact that the exemption becomes unavailable if the estate exceeds $675,000

4. **New Jersey Inheritance Tax.** This tax depends on the relationship of the beneficiary to the decedent.

Beneficiaries	Amounts	Tax Rate
Class A - spouse, descendants, stepchildren, and ancestors	all amounts exempt (Note: this also applies to a mutually-acknowledged child.)	0%
Class B	Repealed	---
Class C - siblings and spouses of children	0 - $25,000 $25,000 - $1,100,00 $1,100,000 - $1,400,000 $1,400,000 - $1,700,000 $1,700,000 and over	0% 11% 13% 14% 16%
Class D - everyone else	0 - $700,000 $700,000 and over	15% 16%

5. **Roth IRA.** A Roth IRA can be a very attractive planning technique. When amounts are withdrawn from a Roth IRA, both the principal and all of the income are totally tax-free.

It is possible to convert all or part of your traditional IRA into a Roth IRA. In 2010, this will be particularly advantageous.

The Roth IRA is not best for everyone, but for some it could be very advantageous.

A conversion involves your withdrawing monies from your current IRA and paying tax thereon, and then contributing to the Roth IRA. One might ask, why should I pay tax early, when I could defer the tax? There are several reasons.

The main reason is that all of the principal and all future income earned can be withdrawn free of income taxes.

There are no Required Minimum Distributions (RMD) from a Roth IRA. Even after reaching age 70½, you could choose not to make any withdrawals, and allow the IRA to grow on a totally tax-free basis for eventual distribution to your beneficiaries.

A conversion will be particularly attractive in 2010. Until now, you could make a conversion only if your income was less than approximately $100,000. That limitation expires on December 31, 2009. Also, if a conversion is made in 2010, you can report the income from the conversion over two years, in 2011 and 2012.

The designation of beneficiary is a critical aspect of the planning.

It is usually most beneficial to name your spouse outright as the primary beneficiary. If a spouse is the beneficiary, then the spouse can make a "rollover" into his/her own IRA, and then have the opportunity to make all of the tax elections which are applicable to his/her own IRA, which is generally a very beneficial treatment.

If your spouse is not surviving, and you name your children as the primary beneficiaries, then they could take advantage of the tax-free growth over their entire life expectancies; but there are some strict requirements. A non-spouse can "roll-over" an IRA into an "inherited IRA" and then that beneficiary can withdraw the IRA over his/her lifetime. A child cannot roll an inherited IRA into his/her own IRA. Rather, the child should re-title the IRA so that it is clear that the prior IRA owner has died, and that the child is the beneficiary. The following is recommended language to use when setting-up an Inherited IRA:

Tom Jones IRA (deceased 10-30-09)
for the benefit of Jane Jones as beneficiary

Then, the beneficiary must take out the Required Minimum Distributions. The advantage of deferring the payout is that the beneficiary can keep the money in the IRA and maximize the tax-free interest and other gains. The Required Minimum Distribution is based on life expectancy. For example, if the remaining life expectancy is, say, 33 years, then the beneficiary must withdraw $^{1}/_{33}$ of the balance (that is, only 3%). If the life expectancy is 25 years, then the beneficiary must withdraw $^{1}/_{25}$ (that is, only 4%). It is very important to take advantage of this opportunity to obtain the benefit of tax-free accumulation over the long term.

The beneficiary is always free to withdraw a larger amount, that is, larger than the Required Minimum Distribution, at any time.

Another option might be to name a grandchild as a beneficiary, potentially allowing for tax-free accumulation over an even greater period of time. If you are naming a trust as beneficiary of your IRA, the relative benefits to your family are greater with a Roth IRA than with a traditional IRA. Depending on the circumstances, it is possible that your heirs could end up with twice as much net value by virtue of long-term tax-free growth in the Roth IRA.

6. **Married Couples and By-Pass Trust.** It is still possible, by using the unlimited marital deduction, to avoid paying any estate taxes at the first death, for both Federal and New Jersey Estate Tax purposes. Each spouse has available a Federal Estate Tax and a

New Jersey Estate Tax exemption; however, proper planning is required to take full advantage of both spouses' exemptions. Without such planning, for example, if you were to leave your entire estate to your spouse, then your children would receive the benefit of only one spouse's exemption. A common plan to utilize both spouses' exemptions involves the use of a "By-Pass Trust". For example, you can leave part of your estate to a trust for the benefit of your surviving spouse. The assets in that trust would be available to your spouse, but not be taxable in his/her subsequent taxable estate; that is, the trust assets would "by-pass" the taxable estate. There are several types of By-Pass Trusts. A By-Pass Trust can be broad or restrictive, depending on your wishes. A By-Pass Trust might be established by the surviving spouse's making an election called a "disclaimer"; this gives the surviving spouse 9 months after the death to decide whether or not to use a By-Pass Trust.

7. Power of Attorney. This is a critically-important element of all estate plans. In a Power of Attorney, you would appoint the Agent of your choice to handle your financial affairs in the event that you are incapacitated. Note: you should ask your parents whether they have prepared a Power of Attorney.

8. Living Will. A Living Will is also very important. It is the method by which you state your wishes regarding the maintenance or non-maintenance of artificial life support if there is a terminal illness with no hope of recovery, and that you appoint a Heath Care Representative. Without any Living Will, only a Court-appointed Guardian would have the authority to make these decisions for you.

9. Valuation of Assets. ***The use of the element of valuation discounting is probably the most significant factor to be utilized to reduce estate taxes!*** Numerous techniques are available, to take advantage of today's relatively low values of stock and real estate. These techniques can also be used to further "discount" the values in order to minimize gift and estate taxes.

10. Tax-Free Gifts. The Gift Tax annual exclusion permits each person to gift $13,000 per donee per calendar year without any gift tax or estate tax consequence.

If you have already used up your annual exclusions, you can still make gifts tax-free, by utilizing up to $1M of your Estate Tax exemption during your lifetime.

In addition to the $13,000 annual exclusion, you can make gifts without any gift or estate tax consequences by paying tuition and medical expenses for children or others. The payments must be made directly to the school or to the medical provider. If you merely reimburse your child or grandchild for the school expenses, that would not qualify for the gift exception.

11. Grantor Retained Annuity Trust (GRAT). Interest rates are the lowest they have been in many years, and accordingly now is a great time to consider techniques that are most effective when interest rates are low. A GRAT is an irrevocable trust to which you transfer assets, and you can receive back all of the contributed assets in the form of annual payments, which are determined based on current interest rates. All income and appreciation in excess of the applicable interest rate passes to the trust beneficiaries free of any gift tax. This is particularly advisable if you think the stock market will increase in value over the coming years.

12. Sale to an Intentionally Defective Grantor Trust (IDGT). This technique is similar to a GRAT. You could sell a parcel of real estate now (while the value is presumably low!) and take back a note receivable. It allows you to retain for yourself the current value of certain assets, and to transfer to your family only the future appreciation of those assets. No capital gain is recognized on the sale. This can typically be accomplished without any gift tax consequences. The current low interest rates (and depressed asset values) increase the appeal of this strategy. Depressed values mean a relatively low purchase price resulting in a smaller loan amount, and lower interest rates on a smaller loan balance means less interest is required to be paid.

13. Beneficiary Designations - IRA and Pension Plans. It is very important to pay special attention to your IRAs and other retirement plans when planning your estate, because these involve both estate taxes and income taxes. These two taxes could consume over 70% of your retirement benefits. It is also important to optimize the benefits of tax-deferred growth within a traditional IRA.

14. Qualified Personal Residence Trust (QPRT). This is a very effective technique by which you can remove your house (or, your second home) from your taxable estate, by transferring it to your children at a discounted value. You would transfer the house into the trust, which will provide that you retain the right to the full use and benefit of the house for a certain term of years, and that your children would receive the house when that term has expired. It is better to implement a QPRT when the real estate value is low,

and thus now may be a very opportune time for a QPRT.

15. Family Limited Partnership (FLP) and Family Limited Liability Company (LLC). These are very effective tools for transferring assets to family members at reduced estate and gift tax rates. An FLP allows for gifts to be made at substantially "discounted" values.

16. Irrevocable Life Insurance Trust (ILIT). If you own a life insurance policy on your own life, the proceeds of that policy will be includable in your estate for estate tax purposes. To remove said proceeds from your taxable estate, you can transfer the policy to an ILIT.

17. Intra-family Loans. Loans to family members must bear interest equal to the applicable federal rate ("AFR"); otherwise, the loan will result in a gift from the lender to the borrower. Parents may currently lend money to their children at very favorable rates. Under these circumstances, a parent may make a loan to a child for a significant period of time, lock in a low rate and collect only interest during the term. The principal may either be repaid when the child has the ability to do so or when the parent dies and a portion of his or her estate passes to the borrower-child. This is an effective "semi-freeze" of the parent's estate in a low interest rate environment. The child will reap the benefit of any appreciation in excess of the interest payment. If you already have such a loan, you should consider refinancing it to bring down the rate.

18. New Home Buyer Credit. The original $8,000 credit for new home buyers was to expire on November 30. It was available only to first time home buyers, and those who have not owned a home during the prior three years. The new law extends this credit; and adds a new credit of $6,500 for "long time residents of the same home". If you qualify for the credit, and your taxes are less than the credit, then the credit is refundable in the form of cash. Under the new law, you must be at least under a contract to purchase a new home before May 1, 2010; the closing of the purchase must occur before July 1, 2010. The credit is limited to 10% of the purchase price of the new home. Taxpayers who have lived in their old home for five out of the eight prior years qualify. The new law increases the income limits under which taxpayers can qualify. Under the new law, a single person with modified adjusted gross income of $125,000 or less can qualify; the limit is $225,000 for a married couple. The new home need not be more expensive or bigger than the old one. The law allowing a $250,000 exclusion from capital gains (or $500,000 per couple) on the sale of your principal residence remains in place; for that, you must have lived in that residence for two of the prior five years. You can claim the credit for the year before you buy your house. For example, if you buy a house in 2010, you can claim the credit on your 2009 tax return, even if this requires you to amend that Return; this allows you to receive the benefit more quickly.