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CLIENT MEMORANDUM
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The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the "Act") was signed into law in December, 2010.

This Act made some major changes to the Federal Estate Tax ("FET"), Gift Tax, and Generation-Skipping Transfer ("GST") Tax laws which apply for 2011 and 2012, and also retroactively for 2010.

This new law applies only until December 31, 2012, when it expires. Then, effective on January 1, 2013, the law which was in effect in 2001 shall again apply.

The Act also extended the income tax rates which had been in place in 2010.

The purpose of this letter is to provide a summary of the estate planning provisions in the Act. Also provided are some other tax tables of interest.

1. Federal Estate Tax.

In 2001, a new law had been passed, which gradually increased the FET exemption, from \$675,000 to \$3,500,000 (\$3.5M) in 2009; and it further provided that for decedents' dying during 2010 there was no Estate Tax. That 2001 law, however, expired on December 31, 2010.

Under the new Act, the FET came back into life in 2011, but giving each individual an exemption of \$5M; and the maximum Estate Tax rate was lowered to 35%. In 2012, an inflationary adjustment increases the exemption to \$5,120,000. But this law is in effect only until December 31, 2012. Without any further legislation, in 2013 the FET exemption will revert to \$1M, and the top tax rate will revert to 55%.

Following is a table which shows the Federal Estate Tax exemption amount, and the maximum tax rate over this time frame.

Year	Exemption	Maximum Tax Rate
1987-1997	\$600,000	55%
1998	\$625,000	55%
1999	\$650,000	55%
2000-2001	\$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%
2007-2008	\$2,000,000	45%
2009	\$3,500,000	45%
2010	NO ESTATE TAX	N/A
2011	\$5,000,000	35%
2012	\$5,120,000	35%
2013	\$1,000,000	55%

Beneficiaries of an estate receive a "step-up" in cost basis to the value of assets as of the time of the decedent's death. This step-up generally has the effect of wiping out potential capital gain taxes on appreciation between the time of original purchase and the date of death.

The new law also introduces the concept of "portability" of the FET exemption. Under prior law, if an individual died and failed to utilize his/her Estate Tax exemption, then the exemption was forever lost. Under the new law, a surviving spouse can utilize the unused exemption of the pre-deceasing spouse. In order to take advantage of portability, a Federal Estate

Tax Return must be timely filed for the pre-deceased spouse, regardless of the size of the estate.

2. Federal Gift Tax.

Under prior law, even though the FET exemption gradually increased to \$3.5M in 2009, the Gift Tax exemption had a fixed cap of only \$1M. Under the new law, the Gift Tax exemption is now the same as the Estate Tax exemption. This means that the amount of Gift Tax exemption is \$5M in 2011 and \$5.12M in 2012. As with the FET, without any further legislation, on January 1, 2013, the Gift Tax exemption will revert to \$1M and the Gift Tax rate will be raised to 55%.

This Gift Tax exemption of \$5M provides a very significant opportunity for individuals with large estates to transfer a significant amount of assets (up to \$10M for a married couple) without incurring any Gift Tax. Among other reasons, making a gift will also remove from the taxable estate all future appreciation on the gifted asset, and remove all income earned in the future on that asset. Making gifts will also significantly reduce the potential Pennsylvania Inheritance Tax and New Jersey Estate Tax. It will be very important in some cases to take advantage of this opportunity. Under current law, this opportunity will lapse on December 31, 2012.

3. Generation-Skipping Transfer (GST) Tax.

Under the new law, the GST tax exemption is also increased to \$5M, not only for 2011 and 2012, but also for 2010. There is no portability allowed with respect to the GST Tax exemption.

4. Special Rule for Decedents Who Died in 2010.

The new law provides a choice to the estates of decedents who died during 2010. Either, (i) the 2010 law as then in effect can be applied, or, (ii) the 2011 law can be applied. In order to have 2010 law apply, it is necessary to make an affirmative election with the IRS. If the election is not made, then 2011 law will apply by default. If a decedent's estate was under \$5M, it will probably be advantageous to let the new law apply in order to obtain maximum possible step-up in cost basis. But if the taxable estate exceeded \$5M then it will probably be most advantageous to apply the prior (2010) law; the election to do so is made by filing Form 8939 with IRS by January 17, 2012.

5. Will the Law Be Changed again before January 1, 2013?

Congress is still in gridlock. It is an unknown as to whether or not any new legislation will be passed. On the one hand, some commentators say that the estate tax should be reduced or repealed because it only applies to a very tiny percentage of the overall population. On the other hand, some commentators say that the FET should be increased because it applies only to the very wealthy, and because there will be a need to increase taxes to address the high deficit problems. If new legislation is not passed, then on January 1, 2013 we will revert to the law which was in effect in 2001.

6. New Jersey Estate Tax.

The State of New Jersey has its own Estate Tax. The N.J. Estate Tax (NJET) applies (regardless of the class of beneficiary) when a decedent's gross estate exceeds \$675,000. Thus, the NJET is "de-coupled" from the FET. The NJET tax rate is a progressive one. Following is a chart showing the effective New Jersey Estate Tax rates.

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 above	16.0%

* Note: the benefit of the exemption is lost if the estate exceeds \$675,000, and this higher effective rate constitutes a make-up rate.

There is no portability of this exemption. This means that, if the pre-deceasing spouse's exemption is not utilized by proper planning, then the exemption is lost, which would result in an unnecessarily high Estate Tax on the "second estate". Thus, a "by-pass trust" (also known as a "credit shelter trust") is still advisable for NJET purposes. Also, it may be advisable, in some

situations, to have a by-pass trust of more than \$675,000; this may result in some New Jersey Estate Taxes being payable on the first estate, but with a much greater overall tax savings at the time of the death of the survivor spouse. Whether such planning is advisable, must be evaluated on a case-by-case basis.

7. Is the Need for Planning now Different?

There is still the same basic need to implement proper estate planning while both spouses are living.

Even if your estate is below the exemption, proper planning is still needed to address issues regarding the proper disposition of your estate. A by-pass trust for a spouse or a trust for a child is also frequently advisable, for the following reasons:

- (a) to protect the assets from claims of creditors;
- (b) to enable your surviving spouse to qualify for Medicaid;
- (c) to protect assets from claims of your child’s spouse in the event of divorce;
- (d) to provide proper management of assets for beneficiaries, especially for minor and disabled beneficiaries; and
- (e) to keep assets from being taxed in your child’s estate.
- (f) to keep assets from being taxed in your surviving spouse’s taxable estate.

8. The Type of Estate Planning Depends on the Size of the Estate.

A. For clients whose estate exceeds \$10M, the two-year window presents a great opportunity for planning. Advantage should probably be taken of the \$5M Gift Tax exclusion while it is available, because this exemption could disappear on January 1, 2013. A potential disadvantage of making gift, however, is that there is a “carry-over of basis” on gifts.

Also, for larger estates now may be the best time to utilize some other estate planning techniques which may be eliminated by new laws; there have been discussions in the Treasury Department about eliminating certain planning techniques, such as GRATs (Grantor Retained Annuity Trusts), and eliminating “discounting” (that is, reducing values for Estate Tax purposes due to minority interest and other lack of marketability reasons).

In any event, it appears that, at least for larger estates, the potential costs of failing to take advantage

of the current planning opportunity could be high. It seems advisable to err on the side of planning somewhat aggressively. To that extent, this planning must be completed before December 31, 2012. Also, N.J. Estate Taxes are still a big factor in any event.

B. For clients whose estate is in the \$1M-\$5M range, if we assume that the \$5M exemption will be extended beyond 2012, then there might seem to be less need to take aggressive planning steps. But, the possibility exists that the exemption will in fact revert to only \$1M. Again, taking advantage of the current planning opportunities seems advisable. The possibility of future appreciation and inflation should not be ignored. For these estates, the same type of by-pass trust planning as was utilized under the prior law is still advisable, both for Federal and New Jersey Estate Tax purposes.

C. For clients whose estate is \$1M or less, again, State Estate Tax planning is still necessary. Having an appropriate Will is advisable, even if the estate taxes are not an issue.

In summary, for the most part, the same type of planning which was needed under the prior Federal Estate Tax law, is still advisable, even though the Federal Tax consequences may not be as significant.

9. New Jersey Inheritance Tax.

If your estate is not payable to a spouse or children, then the New Jersey Inheritance Tax may apply. Following are the rates, and the class of beneficiaries to which the tax applies.

Class of Beneficiary	Tax Rate
Class “A”: spouse, child, grandchild, parent, step-child, domestic partner, mutually-acknowledged child, etc.	Fully exempt.
Class “C”: sibling, son/daughter-in-law, etc.	First \$25,000: fully exempt. On excess: 11% - 16%.
Class “D”: any transferee, distributee, or beneficiary who does not qualify as Class “A”, “C”, or “E”	Under \$500: fully exempt. Otherwise, 15%; and on any amount in excess of \$700,000: 16%.
Class “E”: charities, State of N.J., etc.	Fully exempt.

Note: The amount of N.J. Inheritance Tax is credited against the N.J. Estate Tax. (There is no Class “B”).

10. Pennsylvania Inheritance Tax.

Class of Beneficiary	Tax Rate
Spouse	exempt
Descendants	4.5%
Siblings	12%
Other heirs; except charities and governmental entities which are exempt.	15%

11. Required Minimum Distributions from IRA.

The amount of the Required Minimum Distribution (RMD) (in most cases) for each year is computed by dividing the "distribution period" into the value of your account on December 31 of the prior year.

UNIFORM LIFETIME TABLE	
Participant's Age at end of Distribution Year	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5
80	18.7
81	17.9
82	17.1
83	16.3
84	15.5
85	14.8
86	14.1
87	13.4
88	12.7
89	12.0
90	11.4
91	10.8
92	10.2
93	9.6
94	9.1
95	8.6
96	8.1
97	7.6
98	7.1
99	6.7

12. Federal Income Tax Rates for 2011.

The following tables are for 2011. There are small inflationary adjustments for 2012.

SINGLE PERSON		
Taxable Income Over	But Not Over	Tax Rate Is
\$0	\$8,500	10%
\$8,500	\$34,500	\$850 plus 15% *
\$34,500	\$83,600	\$4,750 plus 25% *
\$83,600	\$174,400	\$17,025 plus 28% *
\$174,400	\$379,150	\$42,449 plus 33% *
\$379,150		\$110,016.50 plus 35% *

*of the excess over the taxable income in the far left-hand column

MARRIED, FILING JOINTLY		
Taxable Income Over	But Not Over	Tax Rate Is
\$0	\$17,000	10%
\$17,000	\$69,000	\$1,700 plus 15% *
\$69,000	\$139,350	\$9,500 plus 25% *
\$139,350	\$212,300	\$27,087.50 plus 28% *
\$212,300	\$379,150	\$47,513.50 plus 33% *
\$379,150		\$102,574 plus 35% *

*of the excess over the taxable income in the far left-hand column

CAPITAL GAINS and QUALIFIED DIVIDENDS
The top federal tax rate for long-term capital gains and qualified dividend income is 15%