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Recent Changes in Federal Estate Tax Law

Dear Client:

As you may be aware, the federal estate tax law changed significantly beginning January 1, 2010. Although the law implementing this current change was enacted in 2001, it was expected by estate planning practitioners that Congress would adopt new legislation during 2009 so that these changes would not occur. Below is a brief summary of some of the changes that became effective January 1, 2010:

The federal estate tax currently is repealed for 2010 only (a retroactive reinstatement of the federal estate tax is possible, however). In 2009, the federal estate tax was imposed on estates in excess of \$3,500,000 at a tax rate of forty-five percent (45%). If Congress does not pass new legislation during 2010, then the current law reinstates the federal estate tax beginning January 1, 2011; however, at that time, the federal estate tax will be imposed on estates in excess of \$1,000,000 at a tax rate of fifty-five percent (55%). Additionally, whereas previously the estate tax laws allowed the beneficiaries of a decedent's estate to inherit the property with a basis equal to the current fair market value of the assets in the hands of the decedent at death so that the basis was "stepped-up" at death, the repealed estate tax has been replaced with a new adjusted carryover basis rule. The 2010 law allows a \$1,300,000 basis increase to be allocated by the Executor among the assets of the estate such that any difference in the asset's basis in the hands of the decedent, plus any basis increase allocated to the asset (and increased by any unused built-in losses and loss carryovers), would be subject to capital gains tax upon the sale or disposition of the asset in the hands of the beneficiary. In addition to the \$1,300,000 basis increase, a married person has an additional \$3,000,000 qualified spousal property basis increase which can be allocated to assets received by the spouse. Independently, New York continues to have a state estate tax imposed on all assets in excess of \$1,000,000, and there is no change expected with regard to the New York estate tax at this time.

The federal lifetime gift tax exemption of \$1,000,000 remains in effect for 2010; however, whereas the gift tax rate for taxable gifts was 45% in 2009, it is reduced to 35% for 2010, but then increases to 55% in 2011.

The federal generation-skipping transfer (GST) tax also has been repealed for 2010.

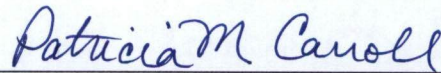
Many of our married clients' estate planning documents contain tax-oriented provisions directing the disposition of property passing under the terms of the documents. These provisions may be ambiguous during the time when there is no federal estate tax in effect.

In light of the above changes and current uncertainty with regard to the estate tax laws, we encourage our clients to review their existing estate planning at this time. If a death were to occur in 2010, current documents may result in unintended dispositions of property and inadvertent tax consequences. Please call either David Selznick or Patty Carroll to schedule a time to review your current estate plan to determine if any changes need to be made.

Sincerely,



David R. Selznick



Patricia M. Carroll