Goldman Sachs
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I. Understanding Proposed Tax Changes and Implications

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A. Overview of Tax Environment Other Than Estate and Gift Taxes

Overview
2010 Year-End Planning Considerations

The tax cuts enacted in 2001 and 2003 are set to expire at the end of 2010. While new tax legislation may be enacted to prevent the expiration of some of these tax cuts, barring such new legislation, it appears that tax rates will increase in 2011.

We have identified 10 areas that you may wish to review with your own tax and legal advisors in order that you might prepare for these potential changes:

1) Accelerating the Sale of a Business Interest
2) Realizing Capital Gains from Investment Transactions on an Accelerated Basis at Current Tax Rates
3) Accelerating Exercise of Nonqualified Stock Options
4) Realizing Capital Losses from Investment Transactions on a Deferred Basis
5) Charitable Gift Timing
6) Making Investments with Reduced Tax Costs
7) Converting a Traditional IRA to a Roth IRA
8) Managing the Alternative Minimum Tax (AMT)
9) Managing State Taxes
10) Foreign Investments

Tax Law Changes and Proposed Tax Law Changes

What is the background?

- All of the primary Bush era tax cuts are scheduled to expire at the end of 2010 under the law's "sunset" provisions. If sunset occurs, the 2011 income tax rates for most taxpayers will increase.
- The Administration has proposed maintaining these tax cuts for lower bracket taxpayers (individuals with income of $200,000 or less and married couples with income of $250,000 or less), so the tax rates for many other taxpayers will likely increase in 2011 even if new tax legislation passes.
- While the Administration has proposed continuing to tax qualified dividends at capital gains rates in the future, if no action is taken and sunset occurs, qualified dividends will be taxed at ordinary income rates instead of the lower capital gains rate applicable through the end of 2010.

What's the consideration?

- Rate changes from 2010 to 2011 that would result in the event of sunset are listed below (brackets for married couples filing jointly):

Tax Brackets[1]	2010 Rates	2011 Rates
$0 – 16,750	10%	15%
$16,751 – 68,000	15%	15%
$68,001 – 137,300	25%	28%
$137,301 – 209,250	28%	31%
$209,251 – 373,650	33%	36%
$373,651 and above	35%	39.6%
Qualified Dividends	15%	Taxed at rate for applicable bracket
Long-Term Capital Gains	15%	20%
Collectibles	28%	28%

[1]*Tax brackets for 2011 may differ slightly due to inflation adjustments.*

Tax Law Changes and Proposed Tax Law Changes

- In 2011, barring new legislation, the marginal tax rates for taxpayers in the top tax bracket ($373,651 and above) will likely increase.
  - — **Ordinary income** rate goes from 35% to 39.6% (**a 13.1% increase**)
  - — **Long-term capital gains** rate goes from 15% to 20% (**a 33.3% increase**)
  - — **Qualified dividends** rate goes from 15% to 39.6% (**a 164% increase**).
- The tax rule **reducing a taxpayer's itemized deductions** by a specified percentage of the amount by which adjusted gross income (AGI) exceeds a threshold **does not apply in 2010 but returns in 2011**. The limitation occurs on Schedule A, Form 1040.
  - — In 2011, the reduction will equal the lesser of (i) 3% of that excess income or (ii) 80% of the itemized deductions (such as charitable contributions) subject to this rule.
  - — For a taxpayer with **$5 million of AGI** in 2011, deductions will be reduced by about **$144,700**.
  - — This rule is often referred to as a "stealth tax" because reducing deductions by 3% of the excess AGI potentially increases the 2011 marginal tax rate thereon from 39.6% to **40.8%.**
- The health care reform law enacted this year includes a **new 3.8% surtax** on investment income (including long-term capital gains) for individuals with AGI in excess of $200,000 and married couples with AGI in excess of $250,000. This surtax **begins in 2013**.
  - — Surtax increases top marginal rate on investment income other than long-term capital gains (and possibly qualified dividends) to **43.4%**.
  - — Surtax increases top long-term capital gains rate to **23.8%**.

Tax Law Changes and Proposed Tax Law Changes

- Proposals to change the taxation of **carried interests** have been made in Congress, and since this change has been identified as a revenue source to “pay for” various bills now under consideration in Congress, it could happen this year.
  - Proposed rule applies to **partnership interests received for services** if those services relate to the investment, management or financing of specified assets. The term “specified asset” includes securities, real estate, partnership interests, commodities, options, and derivative contracts.
  - The service partner’s pro rata share of partnership income is treated all or in part as **ordinary income**.
  - Gain on the sale or exchange of a service interest partnership is also treated as all or in part **ordinary income**.
  - Any disposition of a service interest partnership is taxable, although the portion taxed at the ordinary income rate may vary based upon the holding period.

1. Accelerating the Sale of a Business Interest

- Owners of pass-through entities (LLCs, LPs, S-Corps, etc.) may wish to consider **evaluating the economic impact of accelerating a sale of their entity prior to anticipated ordinary income and long-term capital gains tax rate increases in 2011**

Consider the following example:

- A 75-year old business owner holds 100% of a subchapter S corporation that currently produces $10 million in ordinary income. **Her current income tax bill is $3.5 million** (no state level income taxes)
- She is considering her planning options in light of her age and she wants to ensure that her family has enough resources to maintain their lifestyles after she dies
- She can continue to operate the business and collect $10 million in taxable earnings each year, but her **future tax cost (beginning in 2011) is expected to increase to $3.96 million** (increase of ~13% from today's level)
  — If she sells the enterprise for a multiple of current (pre 2011) earnings, she can, in effect, accelerate the taxable earnings at the current long term capital gains tax rate of 15% **resulting in a tax reduction of 62%**
- Changing the facts, if the owner operates her business in a high tax jurisdiction but anticipates retiring and then selling the business while she is a resident of a no-tax state (e.g., Texas and Florida), the benefits of accelerating taxes should be examined closely
  — The business issue is whether the acceleration of the sale will cause a diminution in value that is not so significant as to offset the economic benefits gained from the tax arbitrage
  — If she believes that her future earnings prospects are brighter or that the environment for acquisitions will be noticeably stronger in the future, she may be better off waiting to sell the company after 2010 even with higher income tax rates

2. Realizing Capital Gains from Investment Transactions on an Accelerated Basis at Current Tax Rates

- To the extent that capital losses are not available to offset capital gains, accelerating gains (particularly a long term capital gain) may prove beneficial
  - A simplified “break even” after-tax analysis suggests that an investment needs to appreciate 6.25% in order to rationalize **realizing the gain at 20% instead of 15%,** notwithstanding future earnings
  - Each investor, in consultation with their outside tax and other advisors, should carefully weigh a potential tax increase against their expected future investment returns to determine how to best utilize both gains and losses
- note: **For investors seeking diversification, <u>it is always a compelling time</u>** to consider selling based upon the premise that any perceived tax burdens should be considered secondary when compared to the potential risk of losing all or a substantial part of an investment due to inherent risks associated with any asset concentration

Examples:

- If an investor sells a $10 million stock position with a zero tax basis, the after-tax proceeds from the sale will be $8.5 million (15% long term capital gains tax rate)
  - If the long-term capital gains rate increases to 20%, the same stock position will need to appreciate to $10.625 million in order to produce $8.5 million after tax
  - When factoring in the time value of money (i.e., money earned on the $8.5 million today), the “break even” rate of return is presumably greater than 6.25%
- In 2013, the 3.8% surtax is added and therefore, the idea of accelerating a gain in the current rate environment is even more appealing
  - As a result of this surtax, the long-term capital gains rate will effectively increase from 15% to 23.8% (20% plus 3.8% surtax).

3. Accelerating Exercise of Nonqualified Stock Options

- A nonqualified stock option granted to an executive or other employee of a company is **taxed when that option is exercised.**
  - — Exercise **generates ordinary income** equal to difference between the stock price and the exercise price on the date of exercise.
  - — Post-exercise appreciation in the stock is taxed at long-term capital gains rate if the stock is held at least one year after the exercise.
- **Exercising a nonqualified stock option in 2010** lowers the tax imposed since the maximum federal tax rate is 35% in 2010, as opposed to the 39.6% rate that will likely apply in 2011, barring new legislation.
  - — Increase in the 2011 tax rate means **tax in 2011 would be 13.1% higher than the tax payable in 2010.**
  - — Exercise also switches post-exercise growth in the stock's value from ordinary income rates to long-term capital gains tax rates (if stock held at least one more year). Thus, future growth is potentially taxed at a 20% rate as opposed to a 39.6% rate, which **cuts the tax by almost 50%.**

4. Realizing Capital Losses from Investment Transactions on a Deferred Basis

- The idea of using capital losses to offset realized capital gains is part of the process of tax-efficient investing
  - — The tax benefits of harvesting losses increases as capital gains tax rates increase

Considerations:

- Investment programs that generate short term trading-oriented gains (e.g., active equity management and hedge funds) become more efficient if the gains are sheltered by unrelated capital losses
  - — Excess accumulation of capital losses beyond a taxpayer's realized capital gains should not be considered problematic as the **losses can be carried forward indefinitely** (for Federal tax purposes) until the taxpayer's death
- From a timing perspective, rather than realizing losses and applying them to offset gains in 2010, an investor may wish to consider deferring the recognition of losses until future years when gains tax rates are scheduled to increase

5. Charitable Gift Timing

- With the top income tax rate likely to increase from 35% to 39.6%, **deferring a charitable contribution from 2010 to 2011** potentially produces a **tax savings equal to 4.6%** of the amount contributed. Thus, deferring the contribution seems to make tax sense.
  - — The donor will pay additional tax in 2010 as a result of the deferral, but he or she effectively receives a 4.6% after-tax rate of return on that tax payment.
  - — However, as explained below, for certain taxpayers this potential tax savings is more than eliminated by the impact of the "haircut" rule relating to itemized deductions that applies in 2011 but not in 2010.
- In 2011, a taxpayer's itemized deductions will be reduced by an amount equal to the lesser of (i) 3% of AGI in excess of a threshold amount (approximately $175,000) or (ii) 80% of those itemized deductions (such as charitable contributions) subject to this limitation.
  - — The limitation does not reduce the deduction a proposed charitable contribution will generate if the donor's other itemized deductions are sufficiently large to absorb the entire haircut.
  - — If the haircut will apply to a proposed charitable contribution, the donor's allowable tax deduction could be reduced to just 20% of the amount contributed. Thus, instead of generating a tax savings of 39.6%, a contribution in 2011 could generate **tax savings of only 7.92%**. By comparison, the same contribution could generate a tax savings of 35% if made in 2010.
  - — For many taxpayers, the haircut rule means **charitable contributions should be accelerated and paid in 2010 instead of 2011. Failure to accelerate contributions could be very expensive.**
- **Because of the many complexities related to charitable income tax deductions, determining whether charitable contributions should be deferred until 2011 or accelerated into 2010 will differ on a case by case basis, and should be reviewed carefully with your outside advisors.**

6. Making Investments with Reduced Tax Costs

- Tax efficient investing is more important if marginal income tax rates rise. The following investments (and legal structures for holding those investments) should be considered:
  - **Municipal bonds:** A taxable bond yielding 5% produces a comparable after-tax yield with a municipal bond yielding 3.25% for an investor in the 35% marginal tax rate bracket
    - If the investor's marginal tax rate increases 4.6% to 39.6%, then equivalent after-tax yield for a municipal bond would be 3.02%
  - **Master limited partnerships:** Any investment that passes through deductions to the owner and reduces the tax cost associated with the cash yield (such as a MLP) could prove more valuable in a higher tax rate environment
  - **Collectibles / commodities:** Certain investments (such as stamps, coins, precious metals, fine art) are currently taxed at a specific rate of 28%. To the extent that other rates rise while the 28% specific rate remains unchanged, those investments subject to the 28% rate are not as costly from a tax perspective compared to traditional investments in the future
  - **Life insurance / annuity structures:** Due to the statutory benefit inherent in certain insurance products that do not cause earnings to be currently taxable, such structures would prove more appealing in the future
  - **Traditional retirement accounts:** Traditional retirement accounts (non-Roth IRAs) may continue to present opportunities in the future for certain investors
    - If an investor can defer taxes during a period of high rates, and ultimately withdraw funds during a period of reduced rates, the tax cost can be diminished
    - In order to realize income in a reduced rate environment, the investor would presumably expect to have lower personal income (thus placing themselves in lower tax brackets), live in a jurisdiction with limited or no income taxation or expect legislative changes that would cause a reduction in tax rates in the future. Absent any of these circumstances applying in the future, the notion of deferral is less compelling

6. Making Investments with Reduced Tax Costs

Continued

— **Charitable entities:** Allocating funds to tax-exempt or tax-deferred charitable entities increases in utility with increased tax rates. Absent a phase-out of charitable deductions, gifts to charity can provide more value in future years as well

— **Grantor trusts:** To the extent that an individual is interested in transferring wealth to non-charitable beneficiaries in the future, making investments through an intentionally defective grantor trust (IDGT) becomes more advantageous from a transfer tax perspective

  – While the overall income tax cost of investing may not change, the payment of taxes by the grantor from his or her own funds (gift tax free) creates a more effective transfer of wealth to the trust beneficiaries

- Qualified dividends may once again become taxable at an individual's marginal ordinary income tax rate
  - — The Administration has proposed to continue to tax qualified dividends at the applicable long-term capital gains rate, which will be 20% in 2011.
  - — Barring legislation, qualified dividend tax rate will rise from 15% in 2010 to 39.6% in 2011 for taxpayers in the highest tax bracket (which represents a tax rate increase of 164%)
  - — Investment strategies that seek dividend yield should lose appeal on a relative basis, particularly if the tax rate jumps to 39.6%

7. Converting a Traditional IRA to a Roth IRA

Background

- Historically only available to taxpayers with incomes below certain levels, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) contains a provision that permits individuals, regardless of income or economic condition, to convert traditional IRAs to Roth IRAs beginning in 2010.
- The income tax consequence of converting to a Roth IRA is that the traditional IRA is treated as being distributed to the account owner. Income tax is due on the implied distribution in the year of the conversion and recognized as income for the year in which conversion occurs. **If the conversion occurs in 2010, the taxpayer has the option to recognize the income in 2010 or the income can be deferred and recognized ½ in 2011 and ½ in 2012.** If income is spread out over 2011 and 2012, it is taxed at the higher rates applicable in those years, not the 2010 rates. Conversions can be made in full or in part.

Considerations

- With any Roth conversion, should the taxpayer accelerate income when the income tax rate is 35% to receive a permanent income tax holiday on earnings and distributions from the Roth IRA going forward, or maintain the traditional IRA status and defer payment of income tax on the current balance and future earnings (likely at higher future rates) until distributions occur?
- A key planning advantage of conversion is that Roth IRAs are not subject to required minimum distribution (RMD) rules during the account holder's life. Roth IRA account holders need not start taking distributions at age 70 ½, which means funds can be retained in a Roth IRA for a much longer period of time than with a traditional IRA, building up tax-free.
- **The conversion strategy may be appealing for:**
  - — Investors who do not anticipate being taxed at lower income tax rates in the future
  - — Investors who have sufficient funds outside of the IRA to pay the income tax generated by conversion
  - — Investors who do not anticipate withdrawing funds from the Roth IRA for at least 5 years
  - — If some / all of these factors are met, an opportunity exists to create a pool of funds not subject to income tax while held in the Roth IRA or when distributed from it.

8. Managing the Alternative Minimum Tax (AMT)

- Currently, taxpayers subject to the alternative minimum tax (AMT) are subject to a **28% marginal ordinary tax rate and a 15% long-term capital gains tax rate**
  - — To the extent that ordinary tax rates increase, individuals are less likely to be subject to the AMT
  - — Thus, ordinary income that is accelerated in 2010 can potentially be **taxed at the lower 28% rate**, resulting in a **tax rate reduction of 11.6%.** In percentage terms, the overall tax cost may be reduced by 30% (going from 39.6% to 28%)
- Part of the AMT analysis includes whether to accelerate deductions in 2010 or defer them into 2011 and beyond
  - — The normal tax planning thesis of deferring income and accelerating deductions may not prove true in an increasing tax rate environment, particularly with those individuals currently subject to the AMT
- **Because of the many complexities, great care should be given to estimated tax calculations and taxpayers, in consultation with their outside tax and other advisors, should analyze tax outcomes across a multi-year period**

9. Managing State Taxes

Because there are 50 states (each with a different set of tax laws), it would be too cumbersome to discuss each state's current and proposed tax regime

- It is critically **important to evaluate, in consultation with your outside tax and other advisors, income tax changes in your state of residence as well as the state where you expect to retire and/or re-locate.**
- For example, the State of New York has enacted laws impacting certain deductions, such as interest expense and charitable deductions. For a NY investor in a highly leveraged investment (e.g., hedge fund) pool, gross income from the investment may not be offset by the interest expense resulting from the use of leverage.

10. Foreign Investments

- Many non-US investments, including mutual funds outside of the US, are taxable to US taxpayers under the **Passive Foreign Investment Corporation (PFIC)** regime. The PFIC rules are designed to discourage US investors from deferring tax on investment income by holding passive investments through non-US companies that do not distribute their earnings currently
- The default tax treatment of PFICs is to treat all dividends and capital gains, even where the investment was held for more than one year, as ordinary income. This means that there is a **reverse tax rate arbitrage** that is detrimental to clients caught up in the PFIC rules (currently taxed at 35% compared to 15%)
  - — In addition, a punitive interest charge can be assessed based on the length of time the foreign investment has been owned. In theory, the tax and interest charge can exceed 100% of any dividend or capital gain distribution
- Taxpayers can make an election to treat the PFIC as Qualified Electing Fund (QEF) to avoid the punitive default rules. **The QEF election eliminates any benefit of offshore deferral, but importantly it allows the taxpayer to avoid the interest charge and retain the favorable long-term capital gain rate upon disposition of the investment**
  - — QEF elections are typically made in the first year the PFIC is owned, but if it has been missed or otherwise was not possible, the investor can make a "deemed sale election" which treats the taxpayer as having sold the investment on January 1 of that tax year and immediately reacquiring it with the generally preferable QEF characteristics. To the extent the investment has appreciated, the deemed sale election will trigger a tax liability
- Note: An election made with respect to 2010 could take advantage of the generally lower valuations of many investments on January 1, 2010.
  - — The election is made with a timely filed 2010 tax return (i.e., by April 15, 2011 or October 15, 2011, if extended)
  - — If the PFIC is owned through a US pass-through entity like a US partnership or a US LLC, the election is made at the entity level and is binding on all US partners
  - — The PFIC rules are complex and advice should be sought from your outside tax and other advisors prior to making any elections

B. Overview of Gift and Estate Tax Environment

The Gift, Estate and GST Taxes – Uncertainty Continues

2001 tax legislation complicated the tax system with myriad effective dates and a broad sunset provision; to date, Congress has failed to make any changes to the 2001 laws after many attempts to do so; estate planning in the current environment of uncertainty is particularly difficult.

- Annual exclusion for gifts is currently $13,000 per recipient per year or $26,000 for gifts made jointly with spouse.
- Lifetime gift tax exemption is currently $1 million.
- ***Estate, generation-skipping transfer ("GST) taxes and stepped-up basis rules are repealed for 2010 only; appreciated property inherited from a decedent in 2010 must generally take the income tax basis of the decedent, except that executors can elect to step up the basis in the property by $1.3 million ($3 million for property passing to surviving spouse).***
- ***Maximum gift tax rate is currently 35% (the highest individual income tax rate).***
- Unless there is further legislation, 2001 changes will "sunset" on December 31, 2010, and the old system, including the estate and GST taxes, will be reinstated; the gift, estate and GST tax exemptions will return to amounts under pre-2001 law, and the maximum tax rates will revert to 55% (plus 5% surtax on large estates); stepped up basis will be reinstated.
- Some state inheritance taxes increase total transfer taxes due.

Calendar Year	Estate Tax Exemption	GST Tax Exemption	Gift Tax Exemption	Top Estate, GST and Gift Tax Rates
Pre-2001	$1 million	$1 million	$1 million	55% (60% for estates over $10 million until effect of exemption is eliminated)
2009	$3.5 million	$3.5 million	$1 million	45%
2010	N/A (taxes repealed)	N/A (taxes repealed)	$1 million	35% gift tax only (equal to top individual income tax rate)
2011	$1 million	$1.1 million (inflation adjusted)	$1 million	55% (60% for estates over $10 million until effect of exemption is eliminated)

***Information and opinions are drawn from current public sources, including the Internal Revenue Code, as amended in 1986, regarding the legislation. Information contained herein is believed to be reliable, as of the date hereof, but no warranty is given to completeness or accuracy and, while given in good faith, is subject to change without notice.

Proposed Legislative Changes By the Obama Administration to the Estate Tax Planning Landscape

The Administration's 2010 budget proposal (the "Green Book") included several provisions relating to the individual income tax, gift tax and estate tax rules that should be carefully considered by clients.

Some of the Administration's proposals included:

- Making permanent the 2009 gift, estate and generation-skipping tax rates and exemptions (i.e., no repeal of estate or GST taxes in 2010)
- Reducing or eliminating valuation discounts for "family-controlled" entities
- Requiring a minimum 10 year term for grantor retained annuity trusts (GRATs)
- Eliminating the ability to create a "zero-ed out" GRAT (i.e., no up-front gift tax to enter structure)

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Our Understanding of the Most Recent Senate Estate and Gift Tax Proposal

On September 13, 2010, the "Tax Hike Prevention Act of 2010," was introduced in the Senate. The bill would do the following with respect to wealth transfer taxes:

- increase the individual estate tax, gift tax and GST tax exemptions to $5 million thereby reunifying the estate and gift tax exemptions;
- fix the top estate and gift tax rate at 35%;
- repeal the 2010 carryover basis rules (return to a "stepped-up basis" upon death);
- provide for "portability" where the surviving spouse would have the ability to use the unused exemption of the first spouse to die;
- apply these rules retroactively to deaths occurring in 2010 by giving an executor the election to follow these new rules or the rules as set forth under existing 2010 law (i.e. no estate tax but with a limited basis step-up).

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C. Should You Consider Estate Planning in This Uncertain Environment?

Why Consider Estate Planning Now?
“The Perfect Opportunity”

“Perfect Opportunity” because Conditions are Favorable to do Estate Planning Now

- Asset valuations are low due to current economic and market conditions.
- Interest/“Hurdle” rates set monthly by the IRS are at or near historic lows.
- We believe certain estate planning techniques (i.e., short-term “zeroed-out” GRATs, intra-family discounts) may be legislated away in the near future.

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Estate Planning Considerations to Consider with the Changing Estate, Gift and Generation-Skipping Tax Environment

- GRAT planning and management:
  - “Shelf” GRATs: initially funded with cash or municipal bonds;
  - Locking-in gains on successful GRATs;
  - Swapping assets on a failed GRAT with a marketable bond and re-GRAT the assets of the old GRAT;
  - Leveraged GRAT (with the note being owned by the grantor of the GRAT).
- Sales to intentionally defective grantor trusts:
  - Sales of family limited partnership units to “lock-up” valuation discounts allowed under current law;
  - New sales at low interest rates of assets that have appreciation potential;
  - Review of existing structures to ascertain if old note should be refinanced.
- Contingent gifts to take advantage of 35% gift tax rates:
  - Gifts to marital deduction trusts in which the marital deduction may not be elected because Congress does not enact a retroactive gift tax rate increase ;
  - Low interest intra-family loans that are forgiven if Congress does not enact a retroactive gift tax increase;
  - Gifts that rely on state law rescission rights if Congress enacts a retroactive gift tax rate increase.
- Formula gifts and sales to deal with the generation skipping tax uncertainty of the possibility of a retroactive change.
- Low interest intra-family loans or the refinancing of intra-family loans.
- Use of defined value allocation assignments to take advantage of recent case law to mitigate any possible gift tax surprise associated with valuing hard to value assets like private equity, family limited partnership units or Subchapter S stock.

Sample Gifting Illustrations
Calendar Year 2010

Assumptions:

1. Current gift tax rate 35.00%

2. Donor survives for 3 years, thus no tax inclusion at death

3. No appreciation in the assets over the 3 year period

Scenario 1: Taxable Gift						
Taxable Gift*	$	1,000,000				
Gift tax paid	$	350,000				
Amount transferred out of estate	$	1,350,000				
Scenario 2: No Taxable Gift/Assets Retained /No GST Tax at Death						
Retained assets	$	1,350,000				
Future estate tax rate		35.00%		45.00%		55.00%
Future estate taxes	$	472,500	$	607,500	$	742,500
Future inheritance after taxes	$	877,500	$	742,500	$	607,500
Benefit of Scenario 1 over Scenario 2	**$**	**122,500**	**$**	**257,500**	**$**	**392,500**
"Rate of return" on gift tax payment		**35.00%**		**73.57%**		**112.14%**
Scenario 3: No Taxable Gift/Assets Retained/Full GST Tax at Death**						
Retained assets	$	1,350,000				
Future estate/GST tax rate		35.00%		45.00%		55.00%
Future estate/GST taxes	$	700,000	$	837,931	$	958,064
Future inheritance after taxes	$	650,000	$	512,069	$	391,936
Benefit of Scenario 1 over Scenario 3	**$**	**350,000**	**$**	**487,931**	**$**	**608,064**
"Rate of return" on gift tax payment		**100.00%**		**139.41%**		**173.73%**

**Assumed fully taxable as lifetime exemption previously utilized*
*** Assuming no GST tax exemption available at death*

This material is based on the assumptions stated herein. In the event any of the assumptions used do not prove to be true, results are likely to vary substantially from the examples shown herein. These examples are for illustrative purposes only and no representation is being made that any client will or is likely to achieve the results shown.

Sample Gifting Illustrations
Calendar Year 2010

Assumptions:

1. Current gift tax rate		35.00%				
2. Donor survives for 3 years, thus no tax inclusion at death						
3. No appreciation in the assets over the 3 year period						
Scenario 1: Taxable Gift						
Taxable Gift*	$	1,000,000				
Gift tax paid	$	350,000				
Amount transferred out of estate	$	1,350,000				
Scenario 2: No Taxable Gift/Assets Retained/No GST Tax at Death						
Retained assets	$	1,538,462	$	1,818,182	$	2,222,222
Future estate tax rate		35.00%		45.00%		55.00%
Future estate taxes	$	538,462	$	818,182	$	1,222,222
Future inheritance after taxes	$	1,000,000	$	1,000,000	$	1,000,000
Additional assets needed for same transfer	**$**	**188,462**	**$**	**468,182**	**$**	**872,222**
Scenario 3: No Taxable Gift/Assets Retained/Full GST Tax at Death**						
Retained assets	$	2,076,923	$	2,636,363	$	3,444,444
Future estate/GST tax rate		35.00%		45.00%		55.00%
Future estate/GST taxes	$	1,076,923	$	1,636,363	$	2,444,444
Future inheritance after taxes	$	1,000,000	$	1,000,000	$	1,000,000
Additional assets needed for same transfer	**$**	**726,923**	**$**	**1,286,363**	**$**	**2,094,444**

**Assumed fully taxable as lifetime exemption previously utilized*
***Assuming no GST tax exemption available at death*

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Appendix

Numerical Analysis of Investment Implications of Sale of Appreciated Assets

The timing of when appreciated assets are sold can have a significant impact on the after-tax proceeds from the sale. Current and future taxes, investment return expectations and time frame will all influence the decision-making process. This chart shows the effect of the following assumptions on the timing of the sale of appreciated assets:

- The federal long-term capital gains (LTCG) tax rate increase from 15% in 2010 to 20% in 2011 and beyond.

Current Market Value	Total Basis	Long-Term Gain/Loss	Current After-Tax Value	Breakeven Price @ 20% LTCG		Annualized Return in 2011	Annualized Return in 2012	Annualized Return in 2013
$20,000,000	$0	$20,000,000	$17,000,000	$21,570,300		7.85%	3.85%	2.55%

- The following chart illustrates the same example with a 25% long-term capital gains rate.

Current Market Value	Total Basis	Long-Term Gain/Loss	Current After-Tax Value	Breakeven Price @ 25% LTCG		Annualized Return in 2011	Annualized Return in 2012	Annualized Return in 2013
- $20,000,000	$0	$20,000,000	$17,000,000	$23,031,500		15.16%	7.31%	4.82%

Note: For simplicity, these charts assume no state income tax, that taxpayer is not in alternative minimum tax (AMT), that itemized deductions would otherwise offset income taxed at 39.6%, and does not include the impact of increased taxes in 2013 as a result of 2010 health care legislation. Also, the outcomes will change depending on an asset's cost basis.

Given the currently anticipated increases in taxes starting in 2011, a breakeven analysis can be helpful in determining whether it is more tax efficient to sell in 2010 or later. Obviously, there are investment considerations which must be taken into account as well.

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