Income Tax as a Rising Estate Planning Concern

Taxation Law Section

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I. New Tax Laws applicable in 2013

a. Net Investment Income Tax (NIIT) was a part of the Patient Protection and Affordable Care Act of 2010 (Obama Care). The NIIT was effective as of January 1, 2013. The main provisions of the tax are as follows:

i. 3.8% additional tax on "net investment income" over the threshold amount.

ii. The "threshold amount" is as follows:

Married Filing Jointly	$250,000.00
Married Filing Separately	$125,000.00
All others	$200,000.00

iii. Net investment income is;

1. Gross income from interest, dividends, annuities, royalties, and rents;

2. Gross income derived from a business that is a passive activity or a trading activity; and

3. Net gain (to the extent taken into account in computing taxable income) attributable to the disposition of property.

b. American Taxpayer Relief Act of 2012 (ATRA)[1] was enacted on January 2, 2013 to be effective as of January 1, 2013 as a partial resolution to the "fiscal cliff." Some of the key tax provisions and changes are as follows:

i. Limitation on Personal Exemption and Itemized Deductions.

1. A phase-out of the personal exemption[2] ($3,950 per person for the taxpayer, dependents and spouse in 2014) in the amount of 2% for

[1] For an interesting look at the cost of the ATRA tax cuts see Exhibit A: *Estimated Revenue Effects of the Revenue Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 8, The "American Taxpayer Relief Act of 2012," as Passed by the Senate on January 1, 2013.*
[2] IRC §151(d)(3).

each $2,500 by which a taxpayer's adjusted gross income (AGI) exceeds the threshold amount.[3]

2. A limitation of certain itemized deductions reduces the value of such deductions by 3% of the amount by which AGI exceeds the threshold amount.[4]

ii. Marriage Penalty Relief. Permanently sets the standard deduction for married couples at twice the value for single individuals.

iii. Child Tax Credit. ATRA makes permanent the increase in the child tax credit to $1,000 per child, and makes permanent the refundable amounts up to 15% of the taxpayer's earned income in excess of $10,000 ($3,000 through 2017).[5]

iv. Alternative Minimum Tax Relief. Permanent increase of the AMT exemption[6] indexed for inflation after 2012.[7]

v. Estate and Gift Tax. Permanent extension of the $5 million exemption amount which is indexed for inflation in years beginning in 2012.[8] "Permanent" implementation of portability of the exemption amount between spouses.[9]

vi. Tax Rate Changes.

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[3] For 2014, the phase-out will be as follows:

Filing Status	Phase-out Begins	Phase-out Ends
Married Filing Jointly	305,050	427,550
Married Filing Separately	152,525	213,775
Head of Household	279,650	402,150
Single	254,200	376,700

[4] IRC §68(a). "If a married couple filing jointly had AGI of $500,000 and itemized deductions (before the reduction) of $40,000, the deductions are reduced to $34,000 ($40,000 less 3 percent of $200,000). On the other hand, if a couple has AGI of $2 million and itemized deductions of $40,000, the deductions are reduced to $8,000 ($40,000 less 80 percent thereof). The threshold amounts are adjusted for inflation for 2014 and later years." BITTKER & LOKKEN, *Federal Taxation of Income, Estates, and Gifts* ¶ 30.4.3 (WG&L). In 2014, the limitation threshold amount is the same as the dollar amount at which the personal exemption phase-out begins as show in note 3 above.

[5] IRC §24(d)(4).

[6] $50,600 for unmarried taxpayers, $78,750 for married taxpayers filing jointly and $39,375 for married taxpayers filing separately.

[7] In 2014, the amounts are $52,800 for unmarried taxpayers, $82,100 for married taxpayers filing jointly and $41,050 for married taxpayers filing separately.

[8] IRC § 2010(c)(3).

[9] IRC § 2010(c)(4). The amount of a deceased spouse's exemption that is portable to a surviving spouse is referred to in the Internal Revenue Code as the deceased spousal unused exemption amount (DSUE).

1. Capital Gains and Qualified Dividends. Makes the preferential rate of 15% permanent on capital gains and qualified dividends. Allows a rate of 20% for taxpayers in the new 39.6% tax bracket.

2. Income Tax Brackets.
    a. Makes permanent the 10% bracket.[10]
    b. Makes permanent the reduction to the other brackets (from 28%, 31%, 36% and 39.6% to 25%, 28%, 33% and 35%).[11]
    c. Creates a new 39.6% bracket[12] for income in excess of a threshold amount[13] as indexed for inflation.[14]

II. Issues and Considerations with Similar Estate (40%) and Income (39.6% + state and local taxes) Tax Rates.

a. As a result of the rate changes above, the maximum estate tax rate and the maximum income tax rate have been almost equal since 2010.[15] The fact that the ATRA rates do not have an automatic sunset, means that there has been a greater level of certainty in this rate equality since the beginning of 2013, which has provided a number of additional planning concerns and considerations.

b. When the maximum estate tax rate was 10-16% greater than the maximum income tax rate and the estate tax exemption amount was between $1 million and $2 million, minimizing the estate tax through the utilization of lifetime gifts was

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[10] IRC §1(i)(1).
[11] IRC §1(i)(2).
[12] IRC §1(i)(3).
[13] $400,000 for single taxpayers, $425,000 for heads of households, $450,000 for married taxpayers filing jointly and $225,000 for married taxpayers filing separately.
[14] In 2014, $406,750 for single taxpayers, $432,200 for heads of households, $457,600 for married taxpayers filing jointly and $228,800 for married taxpayers filing separately.
[15] The maximum federal estate and income tax rates since 2000 have been as follows:

Year	**Income Tax**	**Estate Tax**	**Difference**
2000	39.60%	55.00%	15.40%
2001	39.10%	55.00%	15.90%
2002	38.60%	50.00%	11.40%
2003	35.00%	49.00%	14.00%
2004	35.00%	48.00%	13.00%
2005	35.00%	47.00%	12.00%
2006	35.00%	46.00%	11.00%
2007	35.00%	45.00%	10.00%
2008	35.00%	45.00%	10.00%
2009	35.00%	45.00%	10.00%
2010	35.00%	35.00%	0.00%
2011	35.00%	35.00%	0.00%
2012	35.00%	35.00%	0.00%
2013	39.60%	40.00%	0.40%
2014	39.60%	40.00%	0.40%

a greater concern than avoiding the income tax. To appreciate the rising concerns and analyses between gifts and bequests, one must examine the key differences in the tax consequences of gifts and bequests:

i. Basis.

1. In the case of a gift, the income tax basis of the recipient is generally the income tax basis of the transferred assets in the hands of the donor.[16]

2. In the case of a bequest, the income tax basis of the recipient is generally fair market value of the transferred property at the date of the decedent's death.[17]

3. The fact that gifts have this carryover basis means that all appreciated assets given by a donor carry a built-in-gain liability. While courts have allowed built-in-gain valuation discounts for closely-held corporations,[18] this has not been permitted for gifted single assets.

ii. Tax Exclusive (gift tax) v. Tax Inclusive (estate tax).

1. Gift tax paid on lifetime gifts is paid by the donor in addition to the amount given. Thus, if an individual makes a $1million taxable gift (after all exemption amounts have been fully utilized) he will pay an additional $400,000 in gift tax (40% rate). This results in a total transfer from the donor of $1.4 million.

2. The estate tax is paid from the assets included in the gross estate.[19] If a decedent makes a $1 million specific bequest (after all exemption amounts have been fully utilized) and the tax is equitably apportioned, the decedent will pay $400,000 in estate tax (40% rate) which will be taken out of the $1 million bequest and result in a net transfer of $600,000 to the recipient. In order for the recipient to receive $1 million, the bequest would have to be $1,666,666.67.

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[16] IRC 1015(a).

[17] IRC §1014(a)(1). If an estate makes an election under (a) §2032, the basis is the fair market value of the transferred property as of the alternate valuation date; or (b) §2032A, the basis is determined by the special farm valuation rules.

[18] *See e.g.* Estate of Jelke v. Comm'r, 507 F.3d 1317 (11th Cir. 2007), *rev'g*, 89 T.C.M. (CCH) 1397 (2005), *cert. denied*, 129 S. Ct. 168 (2008); Estate of Jameson v. Comm'r, 267 F.3d 366 (5th Cir. 2001), *rev'g*, 77 T.C.M. (CCH) 1383 (1999); Estate of Dunn v. Comm'r, 301 F.3d 339 (5th Cir. 2002), *rev'g*, 79 T.C.M. (CCH) 1337(2000).

[19] This is a necessity since no assets of the decedent are not included in the estate calculation and yet are available to be used for the payment of the tax.

3. If the gift tax rate was calculated in the same manner as the estate tax rate, the gift tax rate would be 28.57% compared to the estate tax rate of 40%;

   OR

   If the estate tax rate was calculated in the same manner as the gift tax rate, the estate tax rate would be 66.67% compared to the gift tax rate of 40%.

4. If an individual dies within three years of paying gift tax, Congress has made sure that the rates will be the same. "The amount of the gross estate [is] increased by the amount of any [gift tax paid] by the decedent or his estate on any gift made by the decedent or his spouse during the 3-year period ending on the date of the decedent's death."[20] The result of this is a decedent's estate paying estate tax on gift taxes.

iii. Simple example showing the difference between gift and bequest of high basis and low basis assets:

1. Gift

Transferred Assets	Commercial Real Estate	Cash	Total
Income Tax Basis	400,000.00	500,000.00	900,000.00
Fair Market Value	2,000,000.00	500,000.00	2,500,000.00
Built in Gain Liability (Est. @ 20%)	(320,000.00)	-	(320,000.00)
Gift Tax (No Remaining Unified Credit)	800,000.00	200,000.00	1,000,000.00
Total Transfer of Donor (Gift Tax + Gift)	2,800,000.00	700,000.00	3,500,000.00
Net Receipt by Donee (Fair Market Value - Built in Gain Liability)	1,680,000.00	500,000.00	2,180,000.00
Effective Transfer Rate (Net Receipt by Donee / Total Transfer of Donor)	60.0000%	71.4286%	**62.2857%**

[20] IRC §2035(b).

2. Bequest

Transferred Assets	Commercial Real Estate	Cash	Total
Income Tax Basis	400,000.00	1,500,000.00	1,900,000.00
Fair Market Value	2,000,000.00	1,500,000.00	3,500,000.00
Built in Gain Liability (N/A)	-	-	-
Estate Tax (No Remaining Unified Credit)	(800,000.00)	(600,000.00)	(1,400,000.00)
Total Transfer of Donor	2,000,000.00	1,500,000.00	3,500,000.00
Net Receipt by Donee (Fair Market Value - Built in Gain Liability)	1,200,000.00	900,000.00	2,100,000.00
Effective Transfer Rate (Net Receipt by Donee / Total Transfer of Donor)	60.0000%	60.0000%	**60.0000%**

iv. Location of Donee and Donor.

1. The federal income and estate tax rates along with the basis of assets require additional analysis to determine the best ways to transfer wealth. However, the states in which the donor and donees reside add additional complication to the process. For example:
   a. California has a high income tax, but no death tax;
   b. New York City has a high income tax and a state death tax;
   c. Florida has no income tax or death tax; and
   d. Washington has no income tax but has a state death tax.

2. The greater the gap by which the federal, state and local estate tax rate exceeds the federal, state and local income tax rate, the more beneficial proactive estate planning (gifting) can be. The main questions to ask when beginning this analysis are: (a) in what state do the beneficiaries live now; and (b) in what state does the donor intend to die.

3. Example:[21] Potential donor, a widow age 65, with $6.25 million liquid estate owns $2 million of highly appreciates stock in ABC, Inc. and remaining assets of 60% stocks and 40% bonds. Donor is considering a gift to child of the ABC stock, but is concerned with the loss of the step-up in basis.
    a. If the donor lives in a state with no death tax, and the donee lives in a state with high income tax, it could take up to 18 years for the benefit of the gift to exceed the benefit of holding the stock until death.
    b. If the donor lives in a state with no gift tax, but a death tax, and the donee lives in a state with no income tax, it could take as little as 8 years for the benefit of the gift to exceed the benefit of holding the stock until death.

c. Grantor Trusts

i. What is a Grantor Trust? A trust where the grantor (or another individual) is considered the owner of a trust's assets for income tax purposes. Commonly grantor trusts are created as irrevocable trusts that are not included in the grantor's gross estate.

ii. Origination of Grantor Trust Rules. Before the origination of the ability of married couples to file joint returns, the Supreme Court, in *Helvering v. Clifford*,[22] disregarded an attempted assignment of income from one spouse to another via the creation of a short-term trust. The Treasury Department issued regulations known as the *Clifford* regulations under the Internal Revenue Code of 1939 in reaction to the case. The *Clifford* regulations provided rules to determine when trusts would be recognized as taxpayers separate from their grantors. Congress adopted §§671-679 of the Internal Revenue Code in 1954, which codified the grantor trust rules.

iii. Types of Grantor Trusts.

1. Grantor Retained Annuity Trusts (GRATs) and Grantor Retained Unitrusts (GRUTs): irrevocable trusts to which a grantor transfers property and retains an annuity (or unitrust) interest for a term of years.

2. Qualified Personal Residence Trusts (QPRTs): Irrevocable trusts to which a grantor transfers a qualified residence. The QPRT gives

[21] See a chart of this example at Exhibit B.
[22] 309 U.S. 331 (1940).

the grantor any income it produces for a specified term as well as the use of the residence. If the grantor survives the QPRT term, the property is deeded to the remainder beneficiaries. If the grantor dies during the QPRT term, the residence reverts to the grantor's estate.

3. Intentionally Defective Grantor Trusts (IDGTs): Irrevocable trusts that are treated as grantor trusts for income tax purposes, but are not included in the grantor's estate for estate tax purposes.

4. Spousal Lifetime Access Trusts (SLATs): IDGTs created for the benefit of the grantor's spouse for which a QTIP election generally is not made.

5. Revocable Trusts: All trusts that are revocable are grantor trusts.

iv. Intentionally creating Grantor Trusts. A trust can become subject to these rules if the grantor, the grantor's spouse or a nonadverse party retains certain powers with respect to the trust. While there are numerous ways to intentionally and unintentionally create grantor trusts, the following are the most common ways to intentionally create a grantor trust:

1. Power of Substitution – §675(4): The power to reacquire the corpus of the trust by substituting other property of an equivalent value will cause a trust to be a grantor trust. Revenue Ruling 2008-22 provides that estate inclusion would not result under §2036 or§2038 if a grantor holds a substitution power in a non-fiduciary capacity. Revenue Ruling 2008-22 further provides that the trustee has a duty to ensure that equivalent value is substituted.

2. Power to Add Charitable Beneficiaries – §674(a): Providing a third party with the power to add charitable beneficiaries with respect to both income and corpus will cause a trust to be a grantor trust. The grantor should not hold this power due to §2036(a)(2) and §2038(a)(1). The grantor's spouse is also not a good choice for the power if the spouse is a beneficiary of the trust or if the spouse has an obligation to support a beneficiary.

3. Special Testamentary Power of Appointment – §674(b)(3): Grantor's spouse could be given a testamentary special power to appoint accumulated income and the remainder interest without the approval of an adverse party. The spouse cannot be a trust beneficiary in this case as the spouse would be adverse to the

exercise of the power. The spouse should also not have a legal obligation to support a beneficiary.

v. Transaction Example – Sale to IDGT:[23] IDGTs are commonly used in combination with a sale of property. In this transaction, the grantor funds the trust with a minimum value of property known as a seed gift. The seed gift is a gift for gift tax purposes and usually requires the filing of a gift tax return due to the size of the gift and the desire to start the running of the gift tax statute of limitations on assessment. The purpose of the seed gift is to provide the IDGT with some financial ability to pay its obligations in the sale other than solely through the income of the asset purchased. If the grantor desires to avoid the making of a gift other alternatives are available which are beyond the scope of these materials (e.g. requiring the beneficiaries to guarantee a portion of the promissory note issued as a part of the sale or obtaining a standby letter of credit from a commercial lender).

Following the seed gift, the grantor sells property to the IDGT for the fair market value of such property. This sale may be of marketable assets held by the grantor or with assets that have a limited market do to transfer or control restrictions, such as a family limited partnership, in order to obtain lack of control and marketability discounts on the value of the property sold to the trust. In exchange for the property sold to the IDGT, the grantor will receive a promissory note from the IDGT. The promissory note should bear interest at least equal to the applicable federal rate. The note generally will provide that the principal and any accrued interest will be due and payable after a certain term of years. Appreciation in the value of the assets in excess of the interest due to the grantor will escape taxation in the grantor's estate.

Due to the grantor trust treatment of the IDGT, the sale is not recognized for income tax purposes (the grantor is treated as having sold the property to himself or herself). Therefore, the grantor will pay no income tax on the sale. However, the beneficiaries may lose the ability to receive a step up in basis at the death of the grantor.

vi. Benefits of Grantor Trusts.

1. No gain is recognized on sales between a grantor and a grantor trust – appreciated assets may be sold to a grantor trust without the imposition of income tax;

[23] See a diagram of the IDGT Sale at Exhibit C.

2. Grantor trusts are permissible S corporation stockholders (since the grantor is treated as the owner of the state for S corporation purposes);

3. Grantor's have the ability to pay any income tax on the assets in the trust and allow the trust assets to grow tax free, essentially making additional, annual tax-free gifts to the trust without having to utilize gift and estate tax exemption or annual exclusion amounts.

4. Grantors may substitute high basis assets held outside the trust for low basis assets held by the trust shortly before death without the imposition of income tax on the low basis assets (pulling the low basis assets into the grantor's estate to qualify such assets for a step-up in basis) if the grantor has a power of substitution under IRC §675(4).

III. Tax Deferred and Retirement Assets.

a. Basic Rules on Inherited IRA and 401(k) Accounts.

i. Post-Death Minimum Required Distribution Rules:

1. Payout over the life expectancy of the surviving spouse;

2. Payout over the life expectancy of a non-spouse beneficiary;

3. Payout over the life expectancy of the decedent;

4. Payout over 5-years.

ii. Determination between the payouts described above depends on whether the decedent died before or after the required beginning date[24] of the IRA or 401(k).[25]

b. Trusts as Beneficiaries: For a trust to be a beneficiary and not be subject to the 5 year rule, it must either qualify as a See-Through Trust or a Conduit Trust.

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[24] A decedent is treated as having died after the required beginning date, if his death is after March 31 of the year following the year that the decedent turned (or would have turned) 70½.

[25] A decedent is always treated as having died before the required beginning date of a Roth IRA because a Roth IRS does not have a required beginning date.

i. See-Through Trusts: In order to be a see-through trust, all beneficiaries must be individuals. All potential appointees of a power of appointment (including charities) are considered "beneficiaries" unless they can be disregarded.

   Under certain circumstances a beneficiary can be disregarded. The "beneficiary finalization date" is September 30 of the calendar year following the calendar year of the employee's death. A beneficiary does not remain such if the beneficiary's interest is eliminated by either:

   1. Distribution;

   2. Disclaimer; or

   3. Other means (e.g. post death amendments to trust by the beneficiary finalization date pursuant to express provisions in the trust instrument or by way of decanting).

ii. Conduit Trusts: A conduit trust requires that all distributions from a qualified plan/IRA to the trust are immediately distributable to the trust beneficiary.

IV. Loss Carryovers at Death.

a. Not Deductible by the Decedent's Estate: Net operating losses of a decedent are deductible only on the final return filed in his behalf, and such losses are not deductible by his estate.[26]

b. A surviving spouse can use an NOL carryover from a joint return year only to the extent it was generated by (or allocated to) the surviving spouse. Any NOL generated by (or allocated to) the deceased spouse that cannot be used on the decedent's final tax return expires—it is not available for use by the surviving spouse.[27]

c. Suggestions:

   i. Married individuals should aim to balance losses similar to balancing estate assets.

   ii. Seek out strategies to accelerate gains.

[26] Rev. Rul. 74-175, 1974-1 CB 52.
[27] See Vivian W. Rose, TC Memo 1973-207.

EXHIBIT A

JOINT COMMITTEE ON TAXATION
January 1, 2013
JCX-1-13

ESTIMATED REVENUE EFFECTS OF THE REVENUE PROVISIONS CONTAINED IN AN AMENDMENT IN THE NATURE OF A SUBSTITUTE TO H.R.8, THE "AMERICAN TAXPAYER RELIEF ACT OF 2012," AS PASSED BY THE SENATE ON JANUARY 1, 2013

Fiscal Years 2013 - 2022

[Millions of Dollars]

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
I. General Extensions													
A. Tax Relief													
1. Permanent Extension of Certain Tax Cuts Enacted in 2001													
a. Individual income tax rate relief:													
1. Retain 10% income tax bracket [1]............................	tyba 12/31/12	-30,723	-44,168	-44,841	-45,604	-45,986	-46,049	-46,360	-46,518	-46,412	-45,980	-211,322	-442,641
2. Retain the 25% and 28% income tax brackets...........	tyba 12/31/12	-12,731	-18,507	-19,549	-20,839	-21,972	-22,849	-23,447	-23,916	-24,198	-24,226	-93,598	-212,234
3. Retain the 33% income tax bracket, and retain 35% bracket only for taxable income under $400,000 ($450,000 joint) [2]..	tyba 12/31/12	-5,094	-7,595	-8,334	-9,332	-10,412	-11,466	-12,386	-13,352	-14,271	-15,235	-40,768	-107,477
4. Repeal the overall limitation on itemized deduction and the personal exemption phaseout for AGI under $250,000 ($300,000 joint) [3]....................................	tyba 12/31/12	-392	-802	-867	-955	-1,043	-1,131	-1,212	-1,292	-1,371	-1,449	-4,058	-10,514
b. Retain the child tax credit at $1,000; refundable up to greater of 15% of earned income in excess of $10,000 (indexed from 2001) or the taxpayer's social security tax liability to the extent that it exceeds the taxpayer's earned income credit; allow credit against the AMT; repeal AMT offset of refundable credits [1]..	tyba 12/31/12	-4,117	-35,825	-36,785	-37,749	-38,674	-39,310	-39,869	-40,262	-40,714	-41,189	-153,151	-354,493
c. Marriage penalty relief:													
1. Standard deduction and 15% rate bracket set at 2 times single for married filing jointly [1].................	tyba 12/31/12	-4,279	-6,168	-6,134	-6,067	-5,926	-5,689	-5,508	-5,353	-5,298	-5,182	-28,575	-55,604
2. EIC modification and simplification - increase in joint returns beginning and ending income level for phaseout by $3,000 indexed after 2008; simplify definition of earned income; use AGI instead of modified AGI; simplify definition of qualifying child and tie-breaker rules; and allow math error procedure with Federal Case registry data beginning in 2004 [1]...	tyba 12/31/12	-31	-3,126	-3,100	-3,115	-3,086	-3,120	-3,193	-3,284	-3,407	-3,565	-12,458	-29,026

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
d. Education Tax Relief:													
1. Coverdell Education Savings Accounts ("ESAs") - increase the annual contribution limit to $2,000; allow ESA contributions for special needs beneficiaries above the age of 18; allow corporations and other entities to contribute to ESAs; allow contributions until April 15 of the following year; allow a taxpayer to exclude ESA distributions from gross income and claim the HOPE or Lifetime Learning credits as long as they are not used for the same expenses; repeal excise tax on contributions made to ESA when contribution made by anyone on behalf of same beneficiary to QTP; modify phaseout range for married taxpayers; allow tax-free expenditures for elementary and secondary school expenses; expand the definition of qualified expenses to include certain computers and related items...	tyba 12/31/12	-9	-14	-16	-19	-23	-28	-33	-38	-43	-48	-81	-271
2. Employer provided educational assistance - extend the exclusion for undergraduate courses and graduate level courses [4].......................	cba 12/31/12	-230	-1,153	-1,176	-1,200	-1,224	-1,248	-1,273	-1,299	-1,325	-1,351	-4,982	-11,477
3. Student loan interest deduction - eliminate the 60-month rule and the disallowance for voluntary payments; increase phaseout ranges to $50,000-$65,000 single/ $100,000-$130,000 joint, indexed for inflation..	ipa 12/31/12	-89	-898	-1,005	-1,024	-1,067	-1,025	-1,118	-1,098	-1,174	-1,180	-4,083	-9,676
4. Eliminate the tax on awards under the National Health Service Corps Scholarship program and F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program...........	tyba 12/31/12	-127	-132	-136	-141	-147	-152	-158	-163	-169	-176	-683	-1,501
5. Increase arbitrage rebate exception for governmental bonds used to finance qualified school construction from $10 million to $15 million..	bia 12/31/12	[5]	-1	-2	-4	-6	-8	-10	-12	-14	-16	-13	-72
6. Issuance of tax-exempt private activity bonds for qualified education facilities with annual State volume caps the greater of $10 per resident or $5 million..	bia 12/31/12	[5]	-2	-5	-8	-12	-16	-21	-25	-29	-34	-27	-152
e. Dependent care tax credit - increase the credit rate to 35%, increase the eligible expenses to $3,000 for one child and $6,000 for two or more children (not indexed), and increase the start of the phase-out to $15,000 of AGI [1]..	tyba 12/31/12	-62	-246	-233	-222	-208	-190	-175	-164	-154	-139	-970	-1,791

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
f. Adoption credit - increase the expense limit and the exclusion to $10,000 for both non-special needs and special needs adoptions, make the credit independent of expenses for special needs adoptions, extend the credit and the exclusion, increase the phase-out start point to $150,000, index for inflation the expenses limit and the phase-out start point for both the credit and the exclusion, and allow the credit to apply to the AMT [1]..	tyba 12/31/12	-154	-520	-539	-555	-577	-606	-630	-643	-664	-693	-2,344	-5,580
g. Employer-provided child care credit of 25% for childcare expenditures and 10% for child care resource...	tyba 12/31/12	-14	-17	-19	-21	-22	-22	-23	-23	-24	-24	-93	-209
h. Allow electing Alaska Native Settlement Trusts to tax income to the Trust not the beneficiaries....................	tyba 12/31/12	-2	-5	-5	-4	-5	-5	-5	-5	-5	-5	-21	-46
i. Permanently extend current estate and gift tax policy ($5 million indexed and unified exemption amount with portability) but with a top tax rate of 40%.......................	dda & gma 12/31/12	-334	-27,482	-31,915	-34,815	-37,964	-40,946	-44,033	-47,187	-50,406	-53,986	-132,510	-369,068
2. Permanent Extension of Certain Tax Cuts Enacted in 2003													
a. Tax capital gains with a 0%/15%/20% rate structure.......	tyba 12/31/12	-700	-4,904	-6,282	-6,480	-6,584	-6,532	-6,558	-6,748	-6,914	-7,160	-24,951	-58,863
b. Tax dividends with a 0%/15%/20% rate structure...........	tyba 12/31/12	-6,038	-18,150	-20,195	-21,705	-23,961	-25,876	-27,165	-28,211	-29,380	-30,375	-90,050	-231,057
3. Extension of Certain Tax Cuts Enacted in 2009													
a. Extension of American opportunity tax credit (sunset 12/31/17) [1]..	tyba 12/31/12	-2,625	-13,135	-13,238	-13,498	-13,717	-11,067	---	---	---	---	-56,213	-67,280
b. Reduce the earnings threshold for the refundable portion of the child tax credit to $3,000 (sunset 12/31/17) [1]..	tyba 12/31/12	-7	-10,680	-10,451	-10,166	-9,696	-9,518	---	---	---	---	-41,000	-50,518
c. Extend the earned income tax credit ("EITC") for larger families (sunset 12/31/17) [1]..	tyba 12/31/12	-18	-1,773	-1,736	-1,688	-1,629	-1,624	---	---	---	---	-6,844	-8,467
d. EIC modification and simplification - increase in joint returns beginning and ending income level for phaseout by $5,000 indexed after 2008 (sunset 12/31/17) [1]...	tyba 12/31/12	-16	-1,639	-1,612	-1,596	-1,564	-1,552	---	---	---	---	-6,427	-7,979
e. Refunds disregarded in the administration of Federal programs and federally assisted programs [1]..................	ara 12/31/12	- *Estimate to be Provided by the Congressional Budget Office* -											
4. Permanent Alternative Minimum Tax Relief - increase the AMT exemption amount to $50,600 ($78,750 joint) in 2012 and index the AMT exemption amount, exemption phaseout threshold, and income bracket beginning in 2013..	tyba 12/31/11	-138,750	-105,375	-119,550	-136,395	-155,947	-179,805	-204,990	-229,846	-257,451	-287,491	-656,016	-1,815,600
Total of General Extensions……………………………………………………………		**-206,542**	**-302,317**	**-327,725**	**-353,202**	**-381,452**	**-409,834**	**-418,167**	**-449,439**	**-483,423**	**-519,504**	**-1,571,238**	**-3,851,596**
II. Individual Tax Extenders													
1. Above-the-line deduction of up to $250 for teacher classroom expenses (sunset 12/31/13)..................................	tyba 12/31/11	-242	-164	---	---	---	---	---	---	---	---	-406	-406

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
2. Discharge of indebtedness on principal residence excluded from gross income of individuals (sunset 12/31/13)............	doioa 12/31/12	-199	-1,128	---	---	---	---	---	---	---	---	-1,327	-1,327
3. Parity for exclusion for employer-provided mass transit and parking benefits (sunset 12/31/13) [6]...........................	ma 12/31/11	-190	-30	---	---	---	---	---	---	---	---	-220	-220
4. Premiums for mortgage insurance deductible as interest that is qualified residence interest (sunset 12/31/13)............	apoaa 12/31/11	-791	-506	---	---	---	---	---	---	---	---	-1,297	-1,297
5. Deduction for State and local general sales taxes (sunset 12/31/13)...	tyba 12/31/11	-2,859	-2,404	-275	---	---	---	---	---	---	---	-5,538	-5,538
6. Contributions of capital gain real property made for qualified conservation purposes (sunset 12/31/13)..............	cmi tyba 12/31/11	-82	-50	-11	-2	-7	-20	-26	-21	-19	-17	-152	-254
7. Deduction for qualified tuition and related expenses (sunset 12/31/13)...	tyba 12/31/11	-944	-762	---	---	---	---	---	---	---	---	-1,706	-1,706
8. Tax-free distributions from IRAs to certain public charities for individuals age 70-1/2 or older, not to exceed $100,000 per taxpayer per year; special transition rules for certain distributions made in December 2012 and January 2013 (sunset 12/31/13)...	dmi tyba 12/31/11	-594	-283	-41	-43	-46	-49	-51	-55	-58	-61	-1,006	-1,280
9. Modify and make permanent the authority for disclosure of prisoner return information to certain prison officials.......	DOE	[7]	1	1	1	1	1	1	1	1	1	5	12
Total of Individual Tax Provisions…………………………………………………		**-5,901**	**-5,326**	**-326**	**-44**	**-52**	**-68**	**-76**	**-75**	**-76**	**-77**	**-11,647**	**-12,016**
III. Business Tax Extenders													
1. Extend and modify tax credit for research and experimentation expenses (sunset 12/31/13)........................	apoia 12/31/11	-6,232	-1,989	-1,077	-947	-834	-736	-670	-638	-617	-584	-11,079	-14,324
2. Create a LIHC rate floor of 9 percent (sunset 12/31/13).......	amb 1/1/14	---	-1	-1	-1	-1	-1	-1	-1	-1	-1	-3	-8
3. LIHTC treatment of military housing allowances (sunset 12/31/13)...	da 12/31/11	-2	-3	-4	-4	-4	-4	-4	-4	-4	-4	-17	-37
4. Indian employment tax credit (sunset 12/31/13)..................	tyba 12/31/11	-69	-38	-11	-1	---	---	---	---	---	---	-119	-119
5. New markets tax credit ($3.5 billion allocation in 2012 and 2013) (sunset 12/31/13)..	cyba 12/31/11	-5	-27	-90	-171	-221	-252	-279	-288	-267	-194	-514	-1,794
6. 50% tax credit for certain expenditures for maintaining railroad tracks (sunset 12/31/13)..	apoia 12/31/11	-232	-99	[5]	---	---	---	---	---	---	---	-331	-331
7. Mine rescue team training credit (sunset 12/31/13).............	tyba 12/31/11	-1	-2	-1	[5]	[5]	[5]	----	---	---	---	-5	-5
8. Employer wage credit for activated military reservists (sunset 12/31/13)...	pma 12/31/11	-3	-3	-1	[5]	---	---	---	---	---	---	-7	-7
9. Work opportunity tax credit:													
a. Work opportunity tax credit (sunset 12/31/13)................	wpoifibwa 12/31/11	-894	-533	-199	-84	-45	-17	-2	---	---	---	-1,755	-1,773
b. Work opportunity tax credit for qualified veterans (sunset 12/31/13)...	wpoifibwa 12/31/12	-53	-40	-20	-6	-4	-2	[5]	---	---	---	-123	-125
10. Qualified zone academy bonds ($400 million allocation in 2012 and in 2013) (sunset 12/31/13)..................................	oia 12/31/11	-3	-8	-16	-24	-29	-31	-31	-31	-31	-31	-80	-235
11. 15-year straight-line cost recovery for qualified leasehold, restaurant, and retail improvements (sunset 12/31/13)..........	ppisa 12/31/11	-277	-371	-416	-411	-401	-388	-383	-378	-361	-331	-1,876	-3,717
12. 7-year recovery period for certain motorsports racing track facilities (sunset 12/31/13)..	ppisa 12/31/11	-46	-24	-14	-7	-4	-5	-3	5	10	10	-95	-78

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
13. Accelerated depreciation for business property on Indian reservations (sunset 12/31/13)...	ppisa 12/31/11	-310	-273	-77	50	111	138	102	46	1	-11	-498	-222
14. Enhanced charitable deduction for contributions of food inventory (sunset 12/31/13)..	cma 12/31/11	-218	-96	---	---	---	---	---	---	---	---	-314	-314
15. Increase in section 179 expensing amounts and threshold limits $500,000/$2,000,000 (sunset 12/31/13) [8]...............	tyba 12/31/11	-8,088	-4,042	3,129	2,022	1,526	1,191	777	500	350	283	-5,453	-2,352
16. Election to expense mine safety equipment (sunset 12/31/13)...	ppisa 12/31/11	-27	1	7	5	4	4	3	2	1	---	-9	---
17. Special expensing rules for certain film and television productions (sunset 12/31/13)...	qfatpca 12/31/11	-266	-164	45	38	32	24	16	11	9	7	-315	-248
18. Deduction allowable with respect to income attributable to domestic production activities in Puerto Rico (sunset 12/31/13)...	tyba 12/31/11	-236	-122	---	---	---	---	---	---	---	---	-358	-358
19. Modify tax treatment of certain payments under existing arrangements to controlling exempt organizations (sunset 12/31/13)...	proaa 12/31/11	-35	-5	---	---	---	---	---	---	---	---	-40	-40
20. Treatment of certain dividends of RICs (sunset 12/31/13)...	[9]	-124	-27	---	---	---	---	---	---	---	---	-151	-151
21. Extend the treatment of RICs as "qualified investment entities" under section 897 (FIRPTA) (sunset 12/31/13).......	1/1/12	-48	-12	---	---	---	---	---	---	---	---	-60	-60
22. Exception under subpart F for active financing income (sunset 12/31/13)...	tyba 12/31/11	-9,399	-1,826	---	---	---	---	---	---	---	---	-11,225	-11,225
23. Look-through treatment of payments between related CFCs under foreign personal holding company income rules (sunset 12/31/13)...	tyba 2011	-1,199	-304	---	---	---	---	---	---	---	---	-1,503	-1,503
24. Special rules applicable to qualified small business stock (sunset 12/31/13)...	saa 12/31/11	6	7	---	---	-15	-212	-694	-27	-10	-9	-3	-954
25. Basis adjustment to stock of S corporations making charitable contributions of property (sunset 12/31/13)..........	cmi tyba 12/31/11	-93	-51	-10	-11	-10	-10	-10	-10	-10	-10	-175	-225
26. Reduction in recognition period for S corporation built-in gains tax (sunset 12/31/13)......................................	tyba 12/31/11	-180	-76	1	1	1	1	1	1	1	---	-254	-250
27. Empowerment zone tax incentives (sunset 12/31/13)...........	tyba 12/31/11	-360	-44	-23	-11	-5	-1	-1	-2	-2	-2	-442	-450
28. New York Liberty Zone tax-exempt bond financing (sunset 12/31/13)...	bia 12/31/11	*No Revenue Effect*											
29. Temporary increase in limit on cover over of rum excise tax revenues (from $10.50 to $13.25 per proof gallon) to Puerto Rico and the Virgin Islands (sunset 12/31/13) [1] [10]..	abiUSa 12/31/11	-199	-23	---	---	---	---	---	---	---	---	-222	-222
30. Extension and modification of economic development credit for American Samoa (sunset 12/31/13)......................	tyba 12/31/11	-38	-24	---	---	---	---	---	---	---	---	-62	-62
31. Extension and modification of bonus depreciation:													
a. 50% bonus depreciation (sunset 12/31/13).....................	[11]	-34,439	-15,838	15,018	10,101	7,515	5,707	3,446	1,970	1,111	737	-17,644	-4,673
b. Election to accelerate AMT credit in lieu of bonus depreciation (sunset 12/31/13)..	[11]	-162	-139	-26	4	6	7	7	7	7	7	-317	-283
Total of Business Tax Extenders……………………………………………………		**-63,232**	**-26,196**	**16,214**	**10,543**	**7,622**	**5,413**	**2,274**	**1,163**	**187**	**-133**	**-55,049**	**-46,145**

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
IV. Energy Tax Extenders													
1. Extension and modification of section 25C nonbusiness energy property (sunset 12/31/13)..	ppisa 12/31/11	-1,456	-991	---	---	---	---	---	---	---	---	-2,446	-2,446
2. Alternative fuel vehicle refueling property (non- hydrogen refueling property) (sunset 12/31/13)...................................	tyba 12/31/11	-34	-9	-1	[5]	[7]	[7]	[7]	[7]	[7]	[7]	-44	-44
3. Expand section 30D credit for qualified plug-in electric drive motor vehicles to include electric motorcycles (sunset 12/31/13)..	vaa 12/31/11	-1	-3	-3	---	---	---	---	---	---	---	-7	-7
4. Credit for production of cellulosic biofuel with a maximum credit of $1.01 per gallon and inclusion of fuel from algae (sunset 12/31/13)...	fsoua DOE [12]	-43	-16	---	---	---	---	---	---	---	---	-59	-59
5. Extension of credits for biodiesel and renewable diesel:													
a. Income tax credits for biodiesel fuel, biodiesel used to produce a qualified mixture, and small agri-biodiesel producers (sunset 12/31/13)......................	fsoua 12/31/11	-1,881	-300	---	---	---	---	---	---	---	---	-2,181	-2,181
b. Income tax credits for renewable diesel fuel and renewable diesel used to produce a qualified mixture (sunset 12/31/13)...	fsoua 12/31/11	*Estimate Included In Item 5.a.*											
c. Excise tax credits and outlay payments for biodiesel fuel mixtures (sunset 12/31/13)........................	fsoua 12/31/11	*Estimate Included In Item 5.a.*											
d. Excise tax credits and outlay payments for renewable diesel fuel mixtures (sunset 12/31/13)............	fsoua 12/31/11	*Estimate Included In Item 5.a.*											
6. Credit for production of Indian coal (sunset 12/31/13).........	cpa 12/31/12	-1	[5]	[5]	[5]	[5]	[5]	[5]	---	---	---	-1	-1
7. Extension and modification of credits for renewable energy:													
a. Modify expiration date for renewable electricity production credit to construction beginning before December 31, 2013..	ppisa 12/31/12	-116	-445	-882	-1,230	-1,386	-1,499	-1,568	-1,642	-1,686	-1,729	-4,060	-12,184
b. Exclude segregated paper which is commonly recycled from the definition of municipal solid waste for purposes of the section 45 credit for renewable electricity production...	DOE	6	7	8	8	8	9	9	10	10	---	37	75
c. Election to claim the energy credit in lieu of the electricity production credit (sunset 12/31/13)................	ppisa 12/31/12	---	-100	-130	-54	-10	7	28	40	42	43	-294	-135
8. Credit for construction of energy-efficient new homes (sunset 12/31/13)..	haa 12/31/11	-74	-27	-14	-12	-11	-9	-6	-1	---	---	-138	-154
9. Credit for energy-efficient appliances (sunset 12/31/13).......	apa 12/31/11	-155	-82	-65	-65	-65	-65	-65	-54	-28	-6	-432	-650
10. Special depreciation allowance for cellulosic biofuel plant property and inclusion of algae-based fuel plant property (sunset 12/31/13)..	ppisa 12/31/12 [13]	-1	-2	[7]	[7]	[7]	[7]	[7]	[7]	[7]	[7]	-2	[5]
11. Special rule for sales or dispositions to implement Federal Energy Regulatory Commission ("FERC") or State electric restructuring policy (sunset 12/31/13).....................	tyba 12/31/11	-596	-48	110	110	110	110	110	95	---	---	-315	---

Provision	Effective	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
12. Excise tax credits and outlay payments for alternative fuel, and excise tax credits for alternative fuel mixtures (sunset 12/31/13) (other than liquefied hydrogen)............................	fsoua 12/31/11	-305	-56	---	---	---	---	---	---	---	---	-360	-360
Total of Energy Tax Extenders……………………………………………………		**-4,657**	**-2,072**	**-977**	**-1,243**	**-1,354**	**-1,447**	**-1,492**	**-1,552**	**-1,662**	**-1,692**	**-10,302**	**-18,146**
X. Budget Provision													
1. Amounts in applicable retirement plans may be transferred to designated Roth accounts without distribution................	[14]	293	784	914	1,058	1,229	1,405	1,526	1,593	1,661	1,723	4,278	12,186
Total of Budget Provision……………………………………………………………		**293**	**784**	**914**	**1,058**	**1,229**	**1,405**	**1,526**	**1,593**	**1,661**	**1,723**	**4,278**	**12,186**
NET TOTAL …………………………………………………………………………………		**-280,039**	**-335,127**	**-311,900**	**-342,888**	**-374,007**	**-404,531**	**-415,935**	**-448,310**	**-483,313**	**-519,683**	**-1,643,958**	**-3,915,717**

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be January 2, 2013. Revenue provisions as submitted in statutory draft MAT12564.

Legend for "Effective" column:

abiUSa = articles brought into the United States after
amb = allocations made before
apa = appliances purchased after
apoia = amounts paid or incurred after
apoaa = amounts paid or accrued after
ara = amounts received after
bia = bonds issued after
cba = courses beginning after
cma = contributions made after
cmi = contributions made in
cpa = coal produced after
cyba = calendar years beginning after
da = distributions after
dmi = distributions made in
DOE = date of enactment
doioa = discharge of indebtedness occurring after
fsoua = fuel sold or used after
haa = homes acquired after
ipa = interest paid after
ma = months after
oia = obligations issued after
pma = payments made after
ppisa = property placed in service after
proaa = payments received or accrued after
qfatpca = qualified film and television productions commencing after
saa = stock acquired after
tyba = taxable years beginning after
vaa = vehicles acquired after
wpoifibwa = wages paid or incurred for individuals beginning work after

[1] Estimate includes the following outlay effects:	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-17	2012-22
Retain 10% bracket…………………………………………………………………	---	1,682	2,927	3,674	4,568	4,644	4,865	4,869	4,849	4,806	12,851	36,884
Retain the child tax credit at $1,000; refundable; AMT rules………………………	---	15,048	15,056	15,042	14,832	14,859	14,887	14,813	14,879	14,941	59,978	134,357
Marriage penalty - standard deduction and 15% rate………………………………	---	159	228	255	306	309	318	322	308	317	948	2,522
EIC modification and simplification ($3,000)……………………………………..	---	2,541	2,509	2,493	2,437	2,444	2,486	2,507	2,565	2,593	9,979	22,574
Dependent care tax credit…………………………………………………………	---	43	171	165	160	150	139	131	123	117	539	1,199
Adoption credit……………………………………………………………………	---	88	87	85	85	88	82	81	80	83	345	759
American opportunity tax credit …………………………………………………	---	3,191	2,929	2,848	2,677	2,512	---	---	---	---	11,645	14,157
Reduce the earnings threshold for the refundable portion of the child tax credit to $3,000…………………………………………………………	---	10,645	10,410	10,123	9,651	9,480	---	---	---	---	40,829	50,309
Extend EIC for larger families ……………………………………………………	---	1,611	1,559	1,495	1,422	1,395	---	---	---	---	6,088	7,483
EIC modification and simplification ($5,000)……………………………………	---	1,305	1,276	1,261	1,224	1,225	---	---	---	---	5,066	6,290
Refunds disregarded in the administration of Federal programs and federally assisted programs…………………………………………………………………	- *Estimate to be Provided by the Congressional Budget Office* -											
Temporary increase in limit on cover over of rum excise tax revenues [10]………	199	23	---	---	---	---	---	---	---	---	222	222

[Footnotes for JCX-1-13 are continued on the following page]

Footnotes for JCX-1-13 continued:

[2] For head of household filers, the 35% bracket is extended to taxable income under $425,000.

[3] For head of household filers, the repeal of the overall limitation on itemized deduction and the personal exemption phase out applies for AGI under $275,000.

[4] Estimates includes the following budget effects:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-17	2012-22
Total Revenue Effects……	-230	-1,153	-1,176	-1,200	-1,224	-1,248	-1,273	-1,299	-1,325	-1,351	-4,982	-11,477
On-budget effects……	-153	-769	-784	-800	-816	-832	-849	-866	-883	-901	-3,321	-7,652
Off-budget effects……	-77	-384	-392	-400	-408	-416	-424	-433	-442	-450	-1,661	-3,826

[5] Loss of less than $500,000.

[6] Estimate includes the following effects:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
General Fund ……	-127	-20	---	---	---	---	---	---	---	---	-148	-148
OASDI ……	-63	-10	---	---	---	---	---	---	---	---	-72	-72

[7] Gain of less than $500,000.

[8] Estimate includes expensing for qualified real property.

[9] Effective for dividends with respect to taxable years of regulated investment companies beginning after December 31, 2011.

[10] Estimate provided by the Congressional Budget Office.

[11] Effective for property placed in service after December 31, 2012, in taxable years ending after such date.

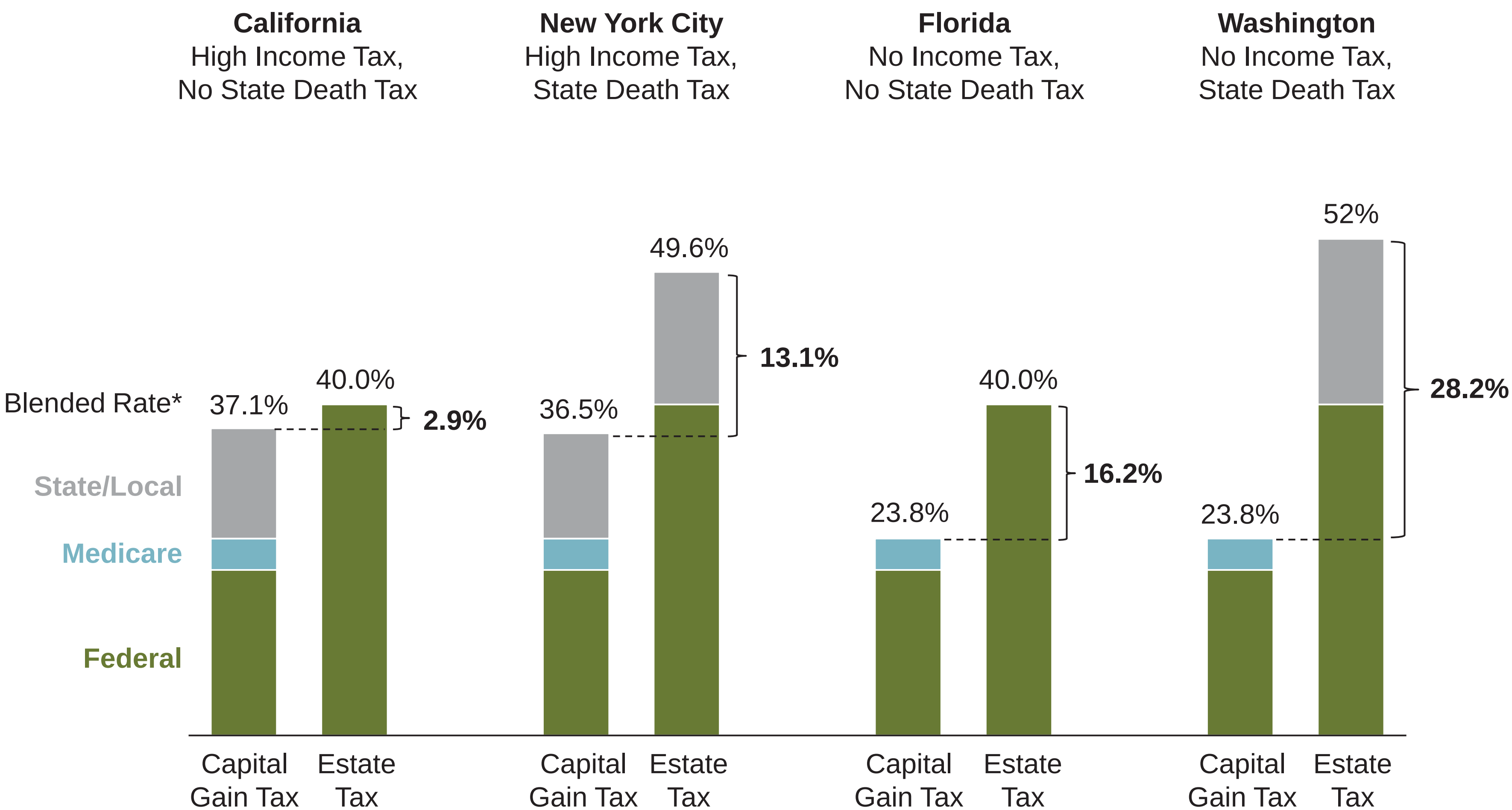
[12] The technical correction is effective as if included in section 15321(b) of the Heartland, Habitat, Harvest and Horticulture Act of 2008.

[13] Inclusion of algae-based property effective for property placed in service after date of enactment.

[14] Effective for transfers after December 31, 2012, in taxable years ending after such date.

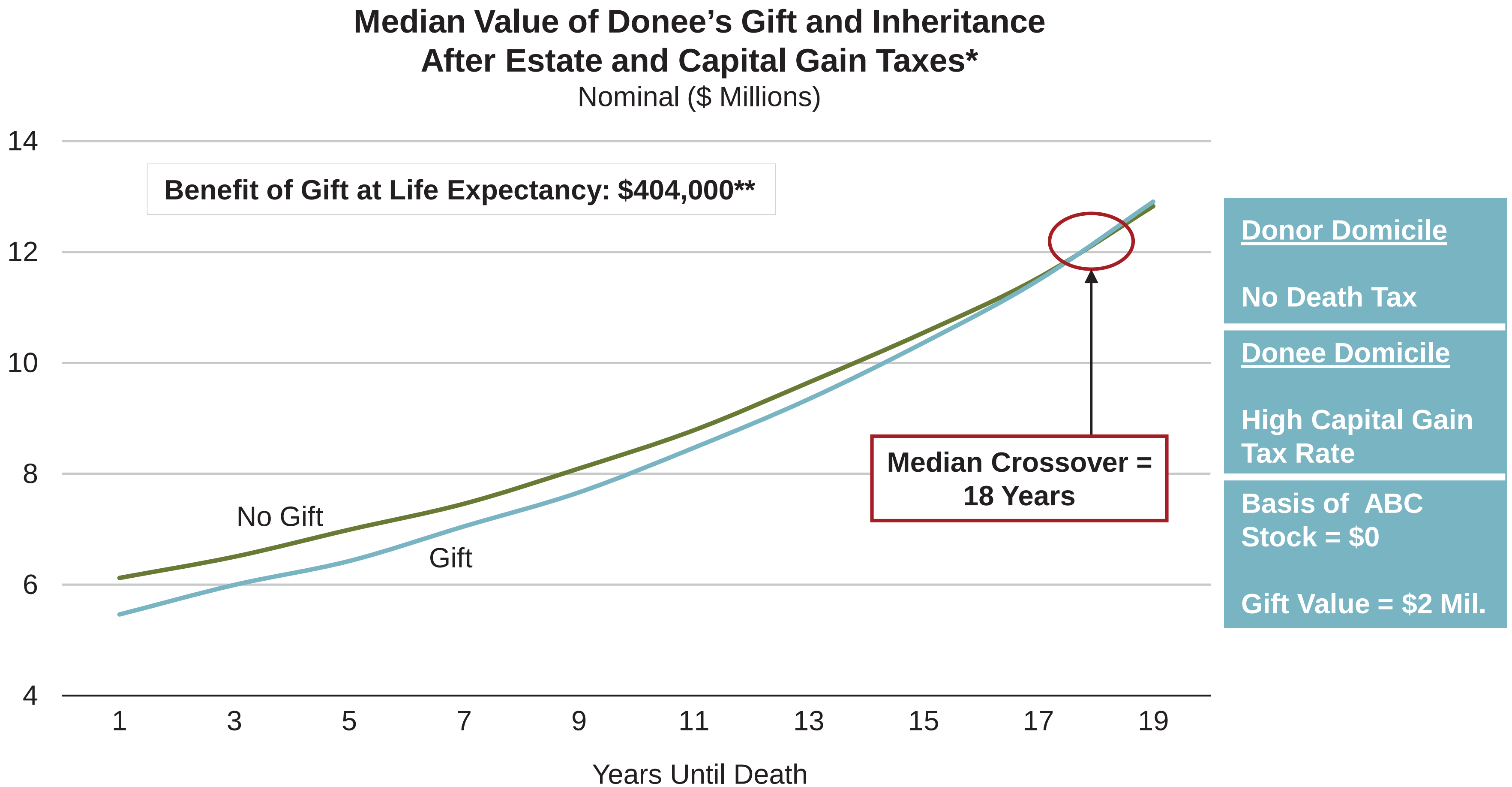
EXHIBIT B

“Gap” Between Estate and Capital Gain Tax Rates Varies by State



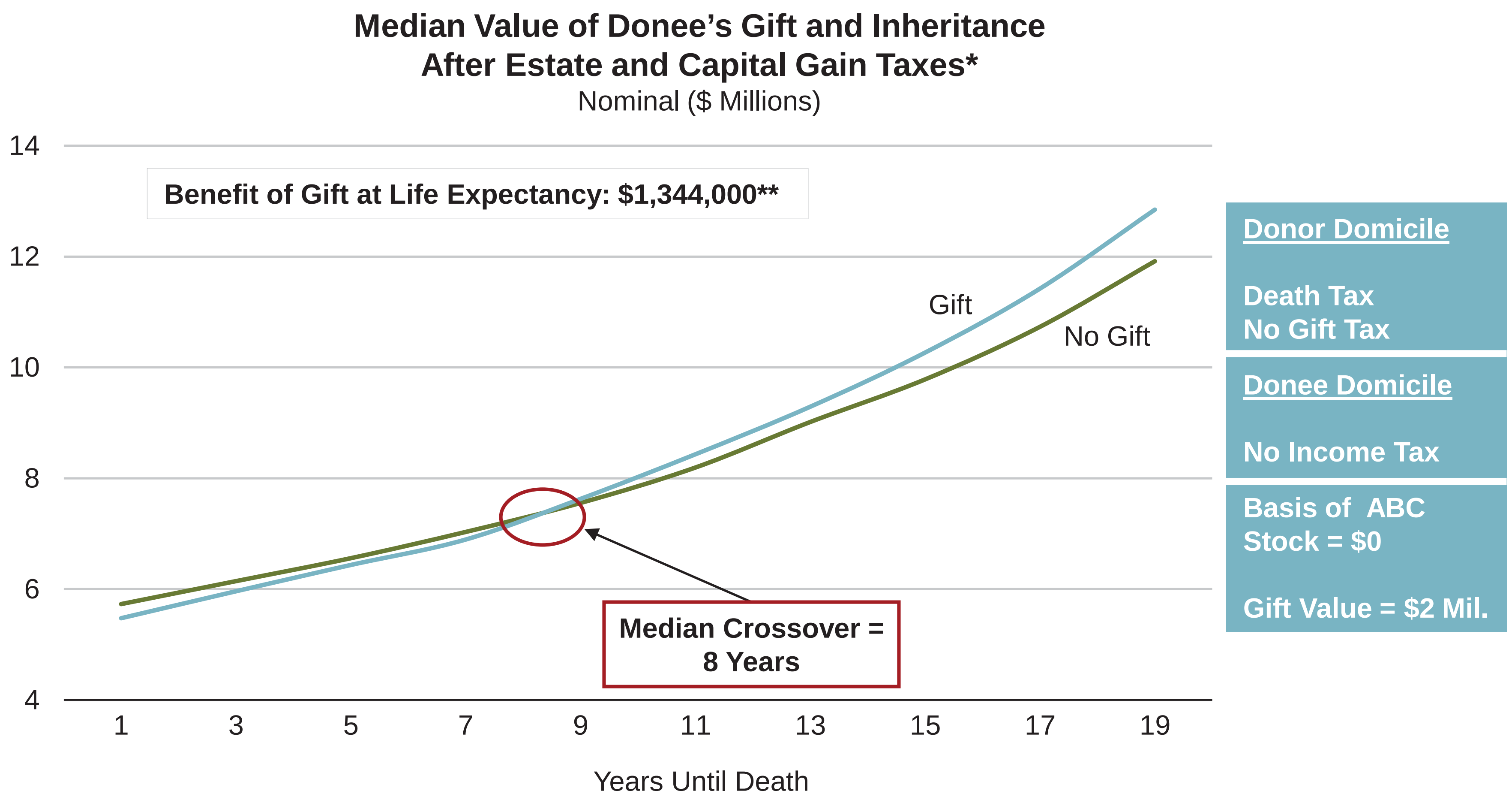
*Based on Health Care and Education Reconciliation Act of 2010 and the American Taxpayer Relief Act of 2012. Rates represent Bernstein’s estimate of the top marginal tax, federal and state income, capital gains and estate tax brackets. Blended rates assume the taxpayers in New York City and California are in AMT. Bernstein is not a legal, tax or estate advisor. Investors should consult these professionals as appropriate before making any decisions.
Numbers may not sum due to rounding.
Source: IRS and AllianceBernstein

Gift Is Not as Compelling When Estate vs. Income Tax "Gap" Is Small



*Based on Bernstein's estimates of range of returns for applicable capital markets over the applicable period. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent estimated liquidation value net of capital gain tax assuming top federal and California tax rates.
**23-year life expectancy for a 65-year-old female is based on the Society of Actuaries RP-2000 Mortality Tables.
See Notes on Wealth Forecasting System at the end of this presentation for additional information.
Source: Society of Actuaries RP-2000 Mortality Tables and AllianceBernstein

Gift Is More Compelling When Tax "Gap" Is Large



*Based on Bernstein's estimates of range of returns for applicable capital markets over the applicable period. Data do not represent past performance and are not a promise of actual results or a range of future results. Asset values represent estimated liquidation value net of capital gain tax assuming top federal and Washington state tax rates. State estate tax at rates described in Section 2011(b) of the Internal Revenue Code of 1986, as amended, for a taxable estate in excess of $2 million.
**23-year life expectancy for a 65-year-old female is based on the Society of Actuaries RP-2000 Mortality Tables.
See Notes on Wealth Forecasting System at the end of this presentation for additional information.
Source: Society of Actuaries RP-2000 Mortality Tables and AllianceBernstein

Time Is Required to Make Up for Income Tax Headwind

Median Number of Years Until "Crossover"*

Basis of ABC Stock = $0

Donee Domicile State Capital Gain Tax?	Donor Domicile State Death Tax? Yes	Donor Domicile State Death Tax? No
Low	8	14
Avg.	10	16
High	11	18

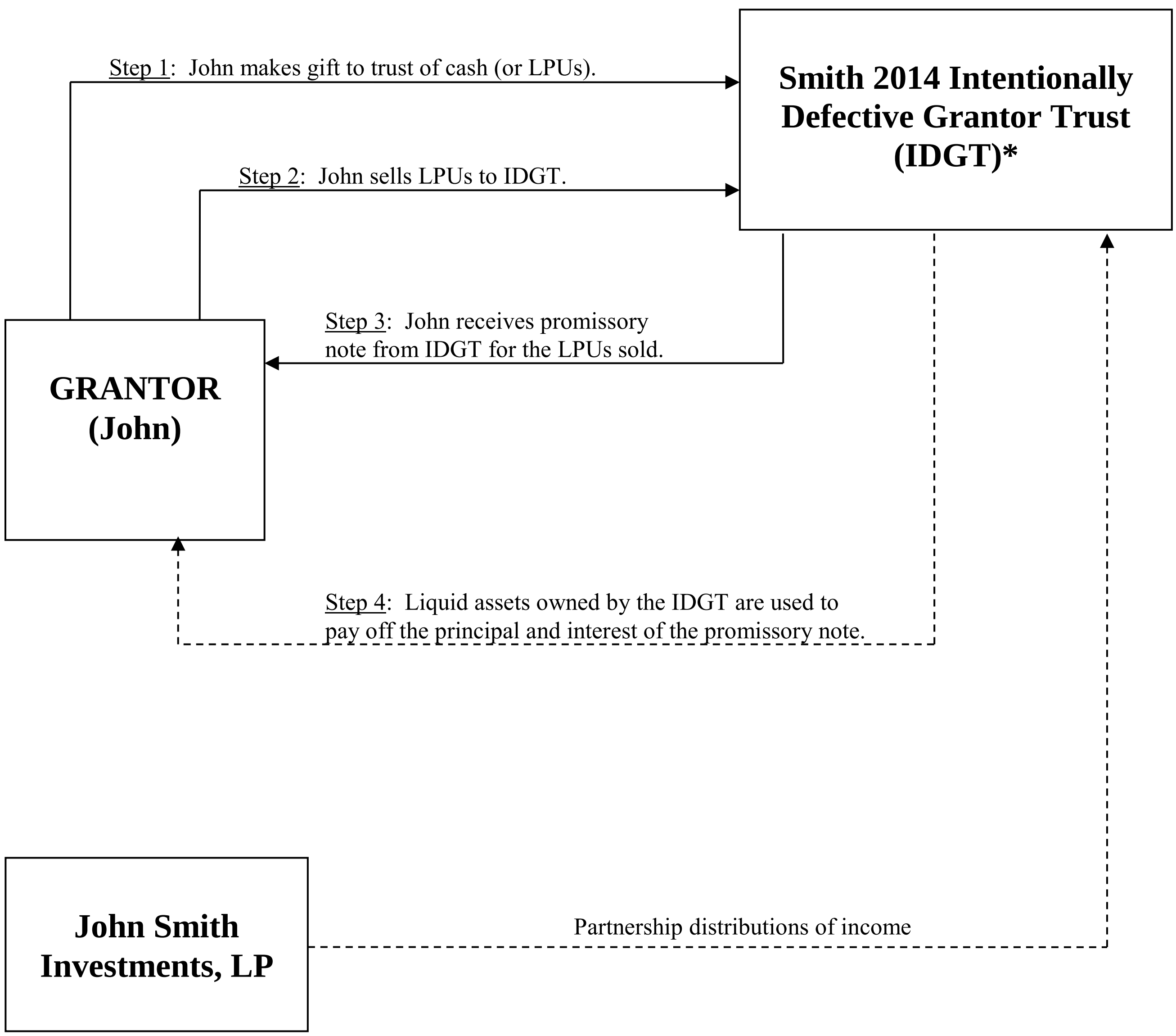
- **In large "gap" situations, a built-in income tax cost can be overcome in a reasonable amount of time****
- **In small "gap" situations where the time to make up the income tax cost is unacceptably long, a wealth transfer strategy such as a GRAT may produce better results**

*Crossover year based on median outcomes. Based on Bernstein's estimates of range of returns for applicable capital markets over the applicable period. Data do not represent past performance and are not a promise of actual future results or a range of future results. State capital gain tax: "High"=13.3%, "Average"=6.5%, and "Low"=0%. Asset values represent estimated liquidation value net of capital gain tax assuming top federal and state tax rates as described above. State estate tax at rates described in Section 2011(b) of the Internal Revenue Code of 1986, as amended, for a taxable estate in excess of $2 million.
**This is even more likely if the gift is made to an irrevocable grantor trust that would allow a substitution of cash or full-basis assets prior to the grantor's death.
See Notes on Wealth Forecasting System at the end of this presentation for additional information.
Source: AllianceBernstein

EXHIBIT C

<u>JOHN SMITH INVESTMENTS, LP</u>

Sale to Intentionally Defective Grantor Trust (IDGT)



*John, until his death, pays all of the income tax on IDGT's income (if any) which results in additional annual tax-free gifts to the trust.