

LAW OFFICES
BERNETICH, HATZELL & PASCU, LLC

JOHN D. BERNETICH JR.
JAMES L. HATZELL *
PAUL PASCU

2 KINGS HIGHWAY WEST, SUITE 101
HADDONFIELD, NEW JERSEY 08033

TELEPHONE: (856) 795-3535
FACSIMILE: (856) 795-3322

MEMBERS OF N.J. AND PA. BARS
* ALSO MEMBER OF FL. BAR

WEBSITE: WWW.ESTATEPLANLAWYER.COM

CLIENT MEMORANDUM
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Changes in Federal and State Estate Tax Laws

The purpose of this memo is to inform you of recent changes in both the Federal Estate Tax law and the New Jersey and Pennsylvania Estate Tax laws. Due to these changes, it is advisable to review and possibly modify your estate planning documents.

- **Federal Estate Tax Law.** Under the old law, the estate tax exemption was \$675,000. Under the new law, effective in 2002, the exemption is \$1,000,000, and this exemption is scheduled to increase gradually to \$3,500,000 in 2009; then, in 2010, there would be no estate tax; and in the year 2011, the new law expires(!) and we then revert to the old law with an exemption of \$1,000,000.

If your estate planning was prepared based on the old law (that is, prior to 2002), then your estate planning should be reviewed to make sure that your assets will be distributed according to your current desires. Particularly for married couples, the formula in your Will may provide that the full "exemption" amount will pass to the By-pass Trust, which might not be the appropriate amount in your current situation. Now that the exemption has changed, depending on the facts and the circumstances of your particular case, it may be best to modify your Will, to take into account this new estate tax law.

- **State Estate Tax Law.** There has been no change to the New Jersey "Inheritance Tax", but there has been a legislative change to the New Jersey "Estate Tax". Because the

New Jersey Estate Tax was coupled with the Federal Estate Tax law, the increased exemption for Federal Estate Tax purposes would have resulted in lesser revenue to the State of New Jersey. Accordingly, New Jersey law was changed in July, 2002 to increase its Estate Tax.

Due to this change, the exemption for New Jersey Estate Tax purposes is essentially \$675,000. If your estate is more than \$675,000, and especially if your Will incorporates the planning known as marital deduction and by-pass trust planning, then your Will should be reviewed to determine whether any change is appropriate. Even for married couples where the marital deduction is available, if the federal exemption amount of \$1,000,000 is bequeathed to the by-pass trust, the result would be a \$33,200 New Jersey Estate Tax payable.

It may be more beneficial to bequeath \$675,000 to the by-pass trust rather than the full exemption amount. It is difficult to make that decision now, because your family circumstances and the estate tax exemptions at the time of death may be different; the best time to make such decision is at the time of the first death. It is advisable to make provisions in your Will so that your

surviving spouse will have the option to avoid this N.J. Estate tax on the "first estate", even though avoiding that tax on the first estate might cause an increase of federal tax on the "second estate".

- The changes made in Pennsylvania regarding its Estate Tax are very similar to the changes in New Jersey law, and the same recommendations apply.
- **Power of Attorney; Living Will.** It is advisable to periodically review your Power of

Attorney, and Living Will.

- **Pension; IRA.** The law changed in 2001 regarding payouts of pension and IRA benefits. Your beneficiary designations for these accounts should be reviewed and updated as appropriate.
- **Insurance.** Similarly, your life insurance, health insurance, disability insurance, car insurance, homeowner's insurance, excess liability (umbrella) policy, and other insurance should be reviewed.

In summary, it is advisable to review your estate planning due to these recent changes in both the Federal Estate Tax law and the State Estate Tax law. In addition, personal and financial circumstances change over time. Accordingly, your Will should be reviewed and possibly modified to ensure that the provisions of your Will will carry out your intentions and will otherwise provide the maximum tax savings.

Thank you for the opportunity to be of continuing service, and please do not hesitate to call if you should have any questions or comments regarding any of these matters.