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To our Friends and Clients:

This letter will provide you with information concerning estate and gift tax developments and estate tax planning opportunities for 2009 and forward.

Federal Estate Taxes

As you may be aware, on January 1, 2009, the federal estate tax exemption amount increased from $2 million to $3.5 million; and, under current law, the federal estate tax is scheduled to be repealed for persons dying in 2010 and then return with only a $1 million exemption for persons dying in 2011 or later. The maximum federal estate tax rate is 45% for 2009 and will be 55% in 2011. However, President Obama has announced his intention to make permanent the $3.5 million exemption, freeze the maximum tax rate at 45% and eliminate the 2010 estate tax repeal. In fact, a bill is already pending in Congress to do just that.

Gift Taxes

The gift tax exemption in 2009 remains at $1 million. The gift tax annual exclusion amount, however, increased to $13,000 in 2009 from the 2008 $12,000 amount. This means that individuals may give up to $13,000 per year and married couples may together give up to $26,000 per year to any number of recipients without gift tax consequences.

State Estate Taxes

New York, New Jersey and Connecticut all impose their own separate State estate taxes, and the State estate tax exemption amount varies in each state. The New York, New Jersey and Connecticut State estate tax exemptions are $1 million, $675,000 and $2 million, respectively. In contrast, Florida imposes no State estate tax.

Credit Shelter Trust Planning

Married couples who anticipate that they may be subject to federal estate tax frequently utilize estate tax exemption trusts ("credit shelter trusts") as part of their estate planning. Married couples who reside in states such as New York, New Jersey or Connecticut where the State estate tax exemptions are less than the federal exemption must carefully consider how much should be

contributed to the credit shelter trust upon the demise of the first spouse. Funding a credit shelter trust with the federal exemption will generally result in the payment of lesser or no estate tax upon the demise of the second spouse. However, funding such a trust with the federal exemption may result in the payment of State estate tax upon the demise of the first spouse.

For example, in New York, if a credit shelter trust is funded with $2 million, approximately $100,000 of New York estate tax will be due upon the demise of the first spouse. In 2009, however, if a credit shelter trust is funded with the full $3.5 million federal exemption, approximately $229,000 of New York estate tax will be due. In addition, for some couples, funding a credit shelter trust with $3.5 million may place more in the trust than is needed to avoid the federal estate tax payable upon the demise of the surviving spouse. For married couples, the decision regarding the extent to which a credit shelter trust should be funded is an individualized one and should be reviewed carefully as part of your estate planning.

In fact, for some couples, the best plan may be to provide in their Wills that the amount passing to the credit shelter trust will be determined by the surviving spouse after the demise of the first spouse, by way of a disclaimer. Again, this is an individualized decision, and we encourage you to consult with us regarding which plan makes the most sense for you.

Valuation Discounts

Another bill pending in Congress will eliminate valuation discounts for minority interests in closely held entities that hold non-business assets. If this bill is passed, the estate tax savings that might otherwise be achieved through the use of family limited partnerships, limited liability companies and certain closely held corporations would be severely impacted. The limitations imposed by this bill would apply to transfers of interests in such entities made after the effective date of the bill. For clients who have previously arranged or contemplated the use of family limited partnerships or limited liability companies as part of their estate planning, this may therefore be a propitious time to act.

Suspension of 2009 Required Minimum Distributions

Another important 2009 tax development is the recently enacted suspension of required minimum distributions ("RMDs") from IRAs and qualified retirement plans (other than defined benefit pension plans) for 2009. The Worker, Retiree, and Employer Recovery Act of 2008 signed into law in December, 2008 suspended RMDs in 2009 for IRA owners, qualified retirement plan participants and their beneficiaries. The suspension of 2009 RMDs does not apply, however, to those persons who reached age 70½ in 2008 and chose to wait until April 1, 2009 to receive their first required minimum distribution. That distribution (which is actually a 2008 RMD) must still be made. Such persons, however, may also benefit from the 2009 RMD suspension because they will not have to take a second distribution (i.e., the 2009 distribution) in 2009. The suspension of the 2009 RMDs may enable the owners, participants and beneficiaries of IRAs and retirement plan accounts to recover some of the losses they suffered in the market in

2008, which losses may have been exacerbated, in part, by the requirement to take 2008 RMDs that were based in many cases upon the December 31, 2007 value of such accounts.

Other Estate Planning Opportunities

Market conditions and low interest rates have also made certain estate tax planning techniques more attractive than previously. Gifts of assets to children, grandchildren and trusts can now be based upon the now reduced values of the transferred assets. Estate planning techniques, such as transfers to Grantor Retained Annuity Trusts ("GRATs") and sales and/or loans to Irrevocable Grantor Trusts, that benefit from the use of low interest rates may provide additional potential for estate tax savings. In fact, the March, 2009, IRS short-term, mid-term and long-term Applicable Federal Rates of .72%, 1.94% and 3.52 %, respectively, are at close to their all-time lows.

New New York Durable General Power of Attorney Form

New York has recently changed the law pertaining to, and the format of, the standard New York Durable General Power of Attorney form. The changes made to the form are aimed, in part, at curbing the potential for agents to abuse the authority given them. For example, under the new format, unless the principal signs a rider specifically authorizing his or her agent to make gifts, the agent may not make any gifts other than gifts the principal has customarily made in the past where such gifts are limited to $500 per recipient per year. Other changes include the new requirement that the agent must sign the form and have the agent's signature notarized prior to using the form. These changes will be effective on September 1, 2009. Fortunately, the law also provides that Durable General Powers of Attorney executed prior to September 1, 2009 will continue to be effective even following the September 1 date. Nevertheless, if you will be signing a Durable General Power of Attorney after September 1 as part of your estate planning, be sure that the new form is utilized and, if desired, the new gifts rider is signed.

A Word to our Clients

As an indication of our commitment to our clients and the fact that we view our relationships with our clients as long-term relationships, we have decided to freeze our 2009 rates at 2008 levels. We recognize the challenges posed to our clients by the current economic environment; and, accordingly, we have decided to work with our clients by not increasing our legal rates this year.

As is indicated above, tax law developments in 2009 present both challenges and opportunities. This may be an opportune time to review your estate planning to determine whether there are changes you would like made to your Wills and other estate planning documents

and whether you are taking full advantage of the opportunities presented by the increase in the federal estate tax exemption amount. If you would like more information or wish to discuss your personal situation, please contact our estates partners, Stephen Krass or Lee Snow.

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To ensure compliance with requirements imposed by the Internal Revenue Service, we are required to inform you that any tax advice contained in this letter is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code or promoting, marketing or recommending to another party any transaction or matter addressed herein.