

ANNE M. MCKINNEY, P.C.

ANNE M. MCKINNEY*
VICTORIA B. TILLMAN

*ALSO ADMITTED IN NC

SPECIAL COUNSEL:
GALE GRAHAM ALLISON
LICENSED IN TENNESSEE,
OKLAHOMA AND GEORGIA

ATTORNEYS AT LAW
1019 ORCHID AVENUE
KNOXVILLE, TENNESSEE 37912

TELEPHONE: (865) 525-8700
FACSIMILE: (865) 521-4189
WEBSITE: WWW.AMMTAXLAW.COM

LEGAL ASSISTANTS:
EUGENE E. JONES
THERESA A. WILLIAMS
LESLIE A. PEAL
ARLENE V. SHOEMAKER
CAROLYN L. GRAY

April 5, 2010

Open Letter to Our Clients

Re: Federal Estate Tax Repeal and Free Client Seminar

We are sending this letter to all of our clients to alert you to a situation no one in the estate planning field expected to occur: We have reached the year 2010 and the federal estate tax, as well as the generation-skipping transfer (GST) tax, have (at least for the moment) been repealed—but only for one year, and maybe not for the entire year, and maybe not at all. We know this sounds silly, but stick with us and we'll try to explain. According to the law as it now stands, the federal estate tax and the GST tax are repealed, but both will re-emerge next January, and with a vengeance. The exemption from federal estate tax will be reduced from the 2009 level of \$3.5 million to \$1 million, and the rate of tax will rise from 45% to 55%.

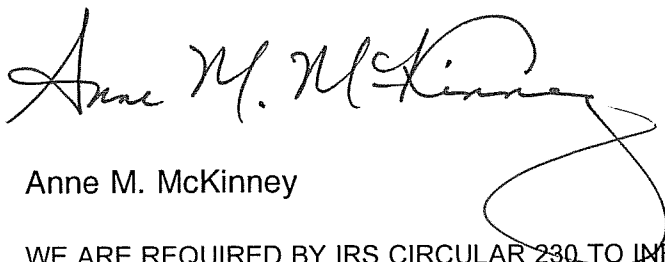
The reason for our concern and for this letter is that, under the current unexpected set of circumstances, your estate plan may not work as we planned and as you wish. If your documents include tax-related terms such as the "unified credit," the "applicable credit amount," the "federal death tax free amount" (without any mention of the "state death tax free amount"), or the "generation-skipping transfer tax," then your documents should be reviewed as soon as possible. You may need revisions to avoid potentially significant state death taxes and/or other unintended consequences upon your death. These revisions will in many cases be quite simple, if revisions are necessary at all. For some of you, however, we may need to make more extensive changes in your plan. We ask that you please give us a call so that we can take a look at your file and discuss any potential problems that may exist as a result of Congress's failure to act.

Even more unfortunate than the upsetting of so many estate plans due to Congressional inaction is the fact that there is no way to predict what Congress may do (or not do) to alleviate the numerous problems caused by its failure to act last December to avoid this bizarre situation. Many estate planning professionals believed at least initially that Congress would pass legislation that would be retroactive to January 1st of this year, reinstating perhaps the \$3.5 million exemption and the 45% tax rate in effect last year. However, the constitutionality of such retroactive legislation would most certainly be challenged, resulting in a five- to seven-year period in which significant tax matters would remain unresolved for many estates and trusts, attorneys,

CPAs and our clients. Congress could choose to pass a statute that would not be retroactive, electing to give up the revenues for transfers that occur in 2010 before enactment; or, our Senators and Representatives could take no action at all this year, leaving us in suspense for the rest of 2010, only to face a much more significant transfer tax regime next January.

In the meantime, the current law keeps the federal gift tax in effect, with a lifetime cumulative \$1 million exemption and a rate of 35% on gift transfers in excess of the exemption amount. Also, for those who die in 2010, with the repeal of the estate tax comes the repeal of the "stepped-up basis" rules. These very helpful rules allowed heirs to use the fair market value of inherited property as its income tax basis for capital gains tax purposes, but under the current law, the step-up in basis is limited, with the result that potentially significant capital gains taxes will be imposed on inherited property. Despite these gloomy circumstances, however, there may be some appealing planning opportunities available only in this year because of the repeal of the generation-skipping transfer tax. We would be happy to talk with you about these opportunities.

To help you better understand this situation and what it could mean for your estate planning, we have scheduled a **free seminar for our clients from 6 to 8 p.m. Tuesday, April 20, 2010 at the Knoxville Museum of Art**. We also will post the seminar handout on our web site at www.ammtaxlaw.com in the Library section, and we will keep you posted during the year as we learn what actions Congress decides to take (again, if any) during 2010. And of course Anne has a new YouTube song, "The Old Wills On Your Mind," which will be available as soon as she recovers from laryngitis, at www.YouTube.com/ladysingsthenews. We look forward to seeing you on April 20. Or, if you prefer, simply call our office, and we will be glad to review your documents at our normal hourly rates.



Anne M. McKinney



Victoria B. Tillman

WE ARE REQUIRED BY IRS CIRCULAR 230 TO INFORM YOU THAT ANY STATEMENTS CONTAINED IN THIS LETTER ARE NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY YOU OR ANY OTHER TAXPAYER, FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED BY FEDERAL TAX LAW.

Anne M. McKinney, P.C. wants you to know that:

We are in the business of providing tax advice. IRS Circular 230 now requires you, the client, to PAY FOR the equivalent of a complete legal brief for any written tax advice that you intend to rely upon. If you are not engaging Anne M. McKinney, P.C. to provide such a brief (which would be prohibitively expensive), then the above preposterous legend must appear on every email or other communication that might contain tax advice, or the penalties that can be imposed on the members of this firm by the IRS include denying our practice before the IRS.

Please feel free to ask us questions about this and call your Congressman to complain!