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August 15, 2002

To: My Estate Planning Clients

Re: Annual Estate Planning Client Newsletter

Dear Clients:

During the past twelve months we all have experienced the most horrific acts of terror and some of the most heroic acts of courage in our nation's history. The tragedies of September 11th continue to affect each of us in many ways, none more profound than the renewed desire to cherish family and friends. While there will always be events that remain beyond our control or knowledge, at least you can know that by preparing an estate plan you have done something to protect your family and preserve your wealth if something unexpected should befall you.

Let me take this opportunity to remind all of those clients for whom I prepared a revocable living trust that all property which you own or have acquired since creating the trust must be held by the trust in order for the trust to perform its purpose. If you have neglected to do this for any of your assets, please contact me so that we can determine what needs to be done.

I have enclosed for you a fill-in-the-blank form to help keep track of the documents that comprise your estate plan. Please take the time to complete the document and send copies of the completed form to those individuals whom you have named as executors, successor trustees and guardians so that each of them will know where to find your estate planning documents.

CHANGES AND TRENDS IN ESTATE PLANNING LAW

FEDERAL LAW:

The biggest change in the law to impact estate planning was the passage last summer of the new federal tax law. As part of the new tax law, the federal estate tax structure was revised substantially. The estate tax (or death tax) is a tax on property left by a deceased person. Technically, the estate tax is imposed

on all estates, but each taxpayer has a huge tax credit that corresponds to the tax on an estate of $1,000,000 (for the year 2002). The practical result is that there is no estate tax if a person dies this year and leaves less than $1,000,000 worth of property. In accordance with the tax cut plan signed by President Bush last year, the exempt amount will increase from $1,000,000 in 2002, to $1,500,000 in 2004, to $2,000,000 in 2006 and finally topping off at $3,500,000 in 2009. In 2010, the estate tax will be eliminated entirely.

In 2011, things get tricky, though. If Congress does not act to change the current estate tax structure before 2011, the existing tax laws call for the estate tax structure in 2011 to revert back to the way it was in 2001 when the new tax law was enacted. While it is unlikely that Congress will leave the tax code alone before 2011, we should all keep this possibility in mind.

STATE LAW:

As for state law, last summer saw a change in California law affecting how married couples can hold title to property. Effective July 1, 2001, California law changed to allow married couples to hold title to property in a new way that provides the advantages of both community property and joint tenancy. California law now allows married couples to hold title to assets as "community property with rights of survivorship." The advantages of this new way to hold title are obvious, first (just like joint tenancy) the asset avoids probate because ownership passes automatically to the surviving spouse upon the death of the first spouse, and second (just like community property) the survivor gets the benefit of a full step-up in basis upon the death of the first spouse – thereby sheltering from any future income taxation the entire capital gain up until the time of the first spouse's death. Of course, there are specific requirements for describing title to gain these advantages. Unless you have a living trust, this new form of title should be the way all married couples in California hold title to any asset that appreciates in value, such as real estate.

Also, late last year, the California Supreme Court heard a case about a person's right to decide not to have his or her life prolonged by extraordinary artificial measures. A husband and wife had long agreed with one another that if either of them should be left in a vegetative state without hope of recovery, that life-support should be discontinued. The couple never prepared any written documents memorializing their wishes. The husband suffered severe injuries in an accident and had no hope of recovery. The wife sought to comply with her

husband's wishes to discontinue life-support, but the husband's mother and sister intervened, seeking to keep him on life-support. In short, the California Supreme Court found that, unless a person has memorialized his or her wishes properly in writing, the person must be kept on life-support. This decision underscores the importance of preparing a Living Will and executing an Advance Health Care Directive to memorialize your intention (if it is your intention) not to be placed on life-support when your condition is irreversible and recovery is unlikely in the opinion of medical professionals. If you have not prepared a Living Will or completed Part 2 of your Advance Health Care Directive, please contact me so that we can get that done as soon as possible.

As always, if you have any questions or require any assistance whatsoever with your estate plan or have any other legal needs, please feel free to contact me.

Very truly yours,

Richard L. Collari Jr.

Enclosure